

REVIEW OF THE DELIVERY OF OFFICIAL CONTROLS IN APPROVED MEAT PREMISES: FINAL REPORT

Executive Summary

1. In October 2006¹, the Board agreed to a suggestion from the MHS Board to review the delivery of Official Controls in approved meat premises and to consider a range of options for the future, including the current model and alternatives to it. Four meat industry associations² also wrote to the FSA's Chief Executive in April 2006 to request a review.
2. In February this year, the Board considered the Phase 1 Interim Report³ and accepted the recommendations for Phase 2 of the programme about the delivery models to be analysed and the principles to inform work on charging and cost sharing. The Board also agreed the following points in relation to Phase 2 of the review:
 - a) The most important outcome is to maintain the safety of meat;
 - b) We should focus on transitional risks and how to manage them;
 - c) Phase 2 would consider all options equally and without prejudice;
 - d) Food Business Operators must take more responsibility for meat safety. The FSA should work in Europe to secure the necessary regulatory flexibility;
 - e) Open consultation should continue, including with the Devolved Administrations;
3. The Board also asked to be kept informed of developments. Geoff Tierney (Programme Manager) presented an update and progress report to the Board in May 2007.
4. This paper:
 - reports the results of Phase 2 of the Programme; and
 - seeks Board decisions on the future delivery of Official Controls, including charging and cost-sharing.

¹ CLO 06/10/04

² BMPA, AIMS, BPC and SAMW

³ FSA 07/02/05

5. Recommendations for Board action are in paragraphs 15 onwards.
6. The final report is an annex to this Board Paper.

MEAT HYGIENE CONTROLS REVIEW

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REVIEW OF THE DELIVERY OF OFFICIAL CONTROLS IN APPROVED MEAT PREMISES: FINAL REPORT

Background

1. The agreed objective of the Review is: “To ensure that the delivery of Official Controls in approved meat premises is providing necessary consumer protection in a targeted, risk-based and proportionate way that represents value for money for operators, taxpayers, consumers and government”.
2. “Official Controls” means all matters covered by the relevant EU and UK regulations on meat hygiene, animal health and welfare and public health in relation to fresh meat production. The Food Standards Agency (FSA) is the Competent Authority in the UK in relation to meat hygiene. Defra and the devolved Agriculture Departments are the Competent Authorities in relation to animal health and welfare.
3. In England, Scotland and Wales, Official Controls are delivered by the Meat Hygiene Service (MHS), an Executive Agency of the FSA. Its role is to protect public health from the risks of unsafe meat and to supervise compliance with animal health and welfare legislation.
4. In Northern Ireland, Official Controls are delivered by the Department of Agriculture and Rural Development under contract to FSA Northern Ireland. The Board has agreed that, while any general principles that emerge should be applicable across the entire UK, this Review would not make any proposals to change the delivery system in Northern Ireland.
5. The Review has four main drivers, arising from the fact that the MHS is a significant part of the FSA in terms of size, budget and risk management. The four drivers are:
 - a) **Confidence:** The FSA needs confidence that Official Controls are being delivered in ways that effectively prevent unsafe meat from entering the human food chain. We need to know that the systems are working. This is also the basis of consumer confidence, both in UK meat and in the FSA as the Competent Authority.
 - b) **Compliance:** Official Controls are set out in detail in EU Regulations. The FSA needs to be sure that the UK is complying with these requirements, particularly as the basis of our meat export trade. We do not want to be at odds with the European Commission’s Food and Veterinary Office (FVO).

- c) **Co-operation:** The FSA wants to encourage Food Business Operators to take more responsibility for compliance and to provide scope for earned autonomy and more risk-based regulation. This is only likely if all sides (regulator, vets, inspectors and Food Business Operators) can work together in partnership to provide incentives for compliance and effective penalties for persistent or high risk non-compliance.
- d) **Cost-effectiveness:** Delivering Official Controls is a significant cost for the FSA and the Agriculture Departments, as well as for Food Business Operators. All parties need reassurance that the controls are delivered in the most cost-effective way. This applies especially to Food Business Operators faced with being asked to pay more under the policy of full-cost recovery. More cost-effective delivery would also benefit consumers and taxpayers, provided standards of meat safety and animal health and welfare are maintained.

Programme Summary

- 6. The Review started in October 2006 and was organised into two phases. Phase 1 reported in February 2007 and assessed a range of options for the future delivery of Official Controls. Phase 2 has run from February to July 2007 and looked in more detail at the delivery options.

A Future Vision for Meat Regulation

- 7. The approach of putting government inspectors into every plant is peculiar to the meat industry. It is not a model favoured elsewhere in the food industry, even where more risky products and processes are involved. Similarly in the wider economy, those businesses operating even the most dangerous activities are themselves responsible for managing risks. Public inspection agencies supervise their operations usually through spot checks and risk based audit. During the review, we have not been able to find good evidence for continuing to treat meat so differently⁴.
- 8. The FSA should move progressively towards aligning meat hygiene regulation more closely the rest of the food chain. This would involve:
 - a) Food Business Operators assuming full responsibility for compliance, without OV's and Meat Inspectors standing over them checking what they do. This requires FBOs to implement effective HACCP plans and to be fully accountable for compliance with regulations.
 - b) External inspection, audit and enforcement based on risk assessment, with opportunities for earned autonomy and incentives for compliance. The

⁴ Although OV supervision of abattoirs can more easily be justified on animal health and welfare grounds.

Competent Authority targeting resources on those parts of the industry which pose the greatest risks. Plants with a track record of compliance being trusted more and subject to unannounced spot checks and risk based audit. There would be quicker and more effective enforcement against non-compliance.

- c) Better cost effectiveness and more efficient operation of the inspection service. This requires both the delivery agency and FBOs to organise their activities more efficiently. Incentives include tight cost targets for the delivery body and a charging regime to encourage efficient use of the inspection service by FBOs.
- d) Increased contestability of service delivery. There is no reason why the delivery of Official Controls need remain a monopoly, whether public or private. Meat plants come in all shapes and sizes with different needs and a 'one-size fits all' approach is unlikely to work best. Allowing different organisations to work alongside a TMHS to deliver meat inspection would allow more flexible responses to the sector's diversity, encourage innovation, provide an element of choice and comparison, open up more career opportunities for inspection staff and help the FSA to manage delivery risks.

Delivery Models

- 9. Based on the February report, the Board agreed that Phase 2 of the Programme should look in more detail at five delivery models. Two of these were general models for the delivery of all Official Controls:
 - a) A transformed Meat Hygiene Service
 - b) FSA contracting with one or more independent delivery partners

There were also three models that could work with either of the above;

- a) Local authority delivery for small and lower risk plants
- b) More joined up working between MHS and Animal Health
- c) Food Business Operator responsibility, first in poultry.

These are described in more detail in the final report and summarised at Annex 1 to this paper.

Charging and Cost-Sharing

- 10. The Phase 1 report also set out principles for charging and cost-sharing. Both FSA and Defra have stated their intention to move towards full cost recovery from the industry. There is also pressure to move away from the system of

charging based on throughput (or headage) and to implement time-based charging. It is believed that charging plants according to the time spend there by Official Veterinarians and Meat Inspectors will incentivise them to make more efficient use of the meat inspection service and so cut the costs of delivering Official Controls.

11. The charging and cost-sharing work has included a review of the likely impacts of FSA proposals to increase the current headage charges and to introduce charges for SRM⁵ controls, together with similar proposals by Defra on cost sharing. The results of this work, with recommendations, can be found in Chapter 10 of the final report.

Evaluation Criteria

12. The Board agreed the evaluation criteria to help assess the future delivery options and asked that they be given appropriate weighting. In response, we have divided the criteria into two categories according to their assessed significance to FSA priorities and risk management. The criteria are set out in the introduction to the final report (1.11 - 1.16). Annex 2 to this paper is an assessment of the delivery models against the agreed evaluation criteria.

Risk Management

13. We have identified the key risks to the delivery of the change programme. They are described in more detail in the introduction to the final report (1.19 - 1.22), together with proposed risk management strategies. The most important issues to consider are:
 - a) Maintaining meat safety, compliance with EU regulations and the confidence of consumers, the FVO and our export trade partners while also reducing the costs of delivery.
 - b) Achieving consistency across the UK while being flexible to reflect local circumstances and the aspirations of the Devolved Administrations. We need consistency of outcome (safe meat) while encouraging more variety in how that outcome is achieved.
 - c) Managing stakeholder expectations. The Review has raised expectations among stakeholders of significant change. There is willingness to work together to solve problems but only in the context of demonstrable commitment to sustainable change.
 - d) Ensuring that proposals for cost-sharing are affordable for all and do not impact disproportionately on smaller plants.

⁵ Specified Risk Material – these controls relate to the BSE protection programme and are currently paid by FSA and Defra and not charged out to plants.

- e) Respecting the policy interests of Defra and Agriculture Departments for animal health and welfare and continuing to work closely with them.
 - f) Enabling the MHS to maintain delivery of Official Controls while simultaneously managing a major change programme.
14. Whoever is charged with managing the implementation of the change programme should update the risk register after July to reflect the Board's decisions on the future delivery model.

Findings and Recommendations

15. The findings of the Review are set out in detail in the final report that accompanies this paper. That report includes many proposals and recommendations, most of which can be taken forward by the Executive as required. Here we present the key decisions for the Board to take which will set the framework for the future change programme.

Decision 1: Our future approach to regulation

- 16. We recommend that the FSA agree, wherever appropriate, to adopt a more risk and evidence-based approach to the regulation of meat hygiene, meat inspection activities and enforcement.**
17. There should be incentives for Food Business Operators to take more responsibility, with rewards and greater levels of earned autonomy for those that do and stronger, more effective sanctions against those guilty of persistent or high-risk non-compliance.
18. Some changes, such as more flexibility for low throughput and remote plants, can be made within current EU regulations (see Chapter 7 of the final report.) Other changes, such as allowing FBO staff to undertake some inspection tasks as part of building FBO responsibility, will require agreement in Europe to change the regulations, which will take time and energy. **We therefore recommend that the FSA develop and implement a strategy actively to engage with other Member States, the European Commission and international partners to secure the regulatory changes necessary to adopt a more risk-based, proportionate, targeted and cost-effective approach to meat regulation.** This work should be done in close partnership with Agriculture Departments, Food Business Operators, consumers and other interested parties.
19. As a major Member State of the European Union with an economically important meat production industry, the UK should take more of a lead to research, communicate, negotiate and secure agreement to an approach to meat hygiene

controls that satisfies the principles of good regulation⁶ and achieves the required outcomes⁷ more cost-effectively. We should not underestimate the challenges of securing agreement in Europe to what some may see as a dangerous challenge to the regulators.

Decision 2: Transformed MHS (TMHS) or Delivery Partner

20. We recommend that the Meat Hygiene Service should continue to be responsible for the delivery of Official Controls in England, Scotland and Wales so long as it transforms to:

- **Reduce the total costs of its operations over the CSR⁸ by at least the amounts set out in Annex 3.**
- **Reduce the net costs of operations over the CSR period by at least the amounts shown in Annex 3.**
- **Improve productivity, measured by the average cost per livestock unit, to achieve annual targets set by the MHS Board.**
- **In consultation with FBOs and other customers, develop and implement charging policies and arrangements consistent with achieving the savings targets set out in Annex 3.**
- **Ensure that, by July 2008, there is better integration of OV's and Meat Inspectors in plants and that the TMHS is making full and cost-effective use of its independent contractors;**
- **Take all necessary action to introduce greater contestability into the market by January 2009.**

21. These targets are the minimum savings targets against which the success of MHS transformation is to be judged. There is scope to achieve more. The FSA Chief Executive will set any necessary additional targets year by year in light of decisions that the FSA Board may wish to take.

22. This is perhaps the most significant decision for the Board - whether to accept the Transformed MHS proposal or to move to the alternative model of contracting out the delivery of Official Controls. This is not a straightforward decision and needs to balance different factors:

⁶ That regulation should be proportionate, accountable, consistent, transparent and targeted.

⁷ It would also be useful to specify more clearly what level of meat safety in abattoirs and cutting plants is acceptable.

⁸ Financial years 2008/9, 2009/10 and 2010/11

- a) FSA future strategy: Should the FSA be a policy and strategy organisation or, in addition, include a front-line delivery capability? Under the TMHS model, the FSA retains responsibility for the day to day delivery of Official Controls through its own agency. Under the Delivery Partner model, there would be a contractual separation of policy and delivery and the FSA could choose from among several possible delivery partners⁹.
- b) Costs and benefits: These are set out in detail in the final report. In summary, the financial modelling suggests that the TMHS model could save more over the shorter term whereas the delivery partner model could save more over a longer (10 year) forecast. This results from the Delivery Partner model requiring more up front investment (e.g. to close down the MHS) and so taking longer to show a net benefit.
- c) Stakeholder views: Again, these are set out in detail in the final report. Meat industry representatives and most FBOs would like to see a choice of provider, including a transformed MHS, as they believe this will produce more innovation, better customer service and more efficiency than a monopoly supplier. Unison supports the TMHS proposal and is against the use of private sector contractors. Consumers would prefer meat inspection to remain independent from FBOs and in the public sector under MHS control, with the FSA being the guarantor that the system is working well.
- d) Risks: As both models would require a substantial change programme, both carry significant risks for the FSA and MHS, especially ensuring the proper delivery of Official Controls during the transition period. This could be a greater risk were Unison to oppose the agreed approach. Equally, should FBOs not be confident that transformation is really going to happen, it will be difficult to secure their agreement to changing the basis of charging and moving towards full cost recovery.

23. The Board is asked to note that FSA's ability to proceed with either model depends on agreement to release resources to cover the up front investment costs required over the next two to three years. For the TMHS, these have been assessed as £7m this year, £8m in 2008/9 and £1m in 2010/11.

24. Having considered these points, the recommendation is not to close down the MHS, as this would involve risks disproportionate to the likely benefits over the CSR period, including the loss of institutional experience, skills and knowledge. It is also unnecessary, given that the MHS has undertaken to transform in ways that could deliver many of the changes that are required.

⁹ Who would be certified and accredited as required under EU legislation

25. However, that is not to suggest that the TMHS proposal should simply be accepted uncritically. It will be essential for the FSA to set, monitor and secure the delivery of key financial and performance targets. The starting point for setting financial targets is to underline the importance of meeting the agreed budget targets for 2007/8. These are:

Total costs	£89m
Revenue	£54m (government and industry)
Operating deficit	£35m (payable by FSA)
Cost per livestock unit	£13.59 maximum

Based on the Annex 3 targets, the outturn figures for 2008/9 must be at least as shown below for the MHS transformation to be judged “on track”:

Total costs	£89m (outturn prices)
Revenue	£57m (outturn prices)
Operating deficit	£32m (payable by FSA)
Cost per livestock unit	£13.19 maximum

26. **We do not recommend** acceptance of all the proposals in the TMHS model. For example, the TMHS offers to provide an “end to end” service and to take over responsibility from the FSA for operational policy, plant approval and enforcement decisions. **We do not recommend that the FSA accept this offer.** To do so would blur the important distinction between the FSA as Central Competent Authority (responsible for determining what should be delivered and checking that it is delivered) and MHS responsibility, as an Executive Agency, for providing the front-line delivery service that the FSA requires. We would not rule out further transfer of responsibilities in future, once TMHS has demonstrated that they have transformed the day to day delivery of meat inspection.
27. **We recommend that the FSA redesign its Meat Hygiene and Veterinary Division and establish a network of regionally based Veterinary Managers.** They would audit the delivery of Official Controls on the ground, make recommendations on plant approval (and suspension of approval) and quality control the risk-based audits of FBOs. They would provide support for plant OVs and liaise with FBOs to help solve problems at local level. They would also take the lead in liaising with Agriculture Departments and Animal Health. This arrangement would help the FSA exercise its responsibilities as Central Competent Authority and respond to the European Commission Food and Veterinary Office’s suggestion that the FSA should have more direct influence over what happens day to day in plants, including following up enforcement actions. It follows that the TMHS proposal to employ 82 additional veterinarians should be reviewed in light of this.
28. **We recommend that the FSA and TMHS should review the proposed TMHS delivery model** in light of the Board decisions in July 2007 and make any necessary amendments as part of implementation planning.

29. A consequential recommendation is that **the FSA should review the governance arrangements for the TMHS to ensure that they adequately reflect these new arrangements**. As part of this review, we recommend that the TMHS Board should include one member with first hand experience as an FBO being regulated and one member to reflect the views of consumers, on whose behalf the regulation is implemented.
30. One of the causes of inefficiency in the system is that policies can be designed by FSA in ways that make it difficult or expensive for the MHS to implement. It is good practice in contractual relationships between customers (FSA) and providers (TMHS) to have a forum in which issues like this can be aired and resolved. **We recommend that the FSA and TMHS set up such a forum.**
31. There is also an important question about managing future risks. It is possible that, despite best intentions and efforts, MHS transformation does not proceed as planned and that the FSA finds itself in need of an alternative solution. For this reason, **we recommend that, starting in April 2008, there should be an annual review of TMHS progress and performance**, on the basis of which the FSA should take a decision whether to continue to support the TMHS or whether to move to a delivery partner model.
32. In parallel, **we recommend that the FSA continue work on the delivery partner model, including preparing a plan to pilot this approach with groups of plants**. Should MHS transformation not succeed, the FSA would then be in a position quickly to activate the delivery partner model.

Decision 3 – Charging and Cost-Sharing

33. **We recommend that the FSA Board agree to:**
- a. **A public consultation on increasing some throughput rates by 1 January 2008, as required by EU legislation;**
 - b. **A public consultation on increasing other throughput rates by 5% above inflation¹⁰ from April 2008; and**
 - c. **Request the TMHS, in consultation with stakeholders, to develop a new charging system for introduction in 2009/10 that would:**
 - **Reflect the new arrangements for delivering Official Controls;**
 - **Allow a progressive move towards full cost recovery;**
 - **Introduce appropriate charges for SRM control**
 - **Permit the more effective targeting of any subsidy;**
 - **Provide financial incentives to FBOs to comply and to make efficient use of TMHS services.**
34. The full analysis of these charging and cost-sharing recommendations is in the final report. They seek to balance a number of different and sometimes conflicting perspectives:
- a) The Board's decision that FBOs should pay the full cost of the Official Controls that they require in order to operate;

¹⁰ This may vary in light of FSA Board decisions on targets for the TMHS

- b) The Board's decision to introduce charges for SRM controls that are currently free to plants (FSA pays);
 - c) TMHS has proposed that the FSA should stop using the Maclean formula and replace throughput (headage) charges by a system of time-based charging to incentivise more efficient use of the TMHS and reduce the complexity of the current charging framework;
 - d) The need for the FSA to reduce its subsidy¹¹ towards the operational costs of the MHS;
 - e) The industry position that they should not pay more unless and until the overall costs of delivering Official Controls are reduced. Industry has asked that Official Controls be delivered for the cost that they currently pay, which was £23.4m in 2006/7¹²;
 - f) The need for low throughput plants to be charged fair and affordable rates and, with Agriculture Departments, to look into options to provide any subsidy required;
 - g) The results of the impact assessment showing that increasing charges will raise questions of affordability and could threaten the viability of some plants (and some farms were the costs to be passed back to farmers).
35. Given the importance of charging to the overall financial performance of the TMHS, **we recommend that responsibility for designing, negotiating and implementing new charging proposals be taken forward by the TMHS**, working within a framework agreed with the FSA. Charging is a sensitive policy area that needs careful negotiation with FBOs and an in depth understanding of the practicalities and implications of different approaches. The TMHS should have the scope to agree the details of charging, cost-sharing and its future revenue streams with its customers, within a set of the principles agreed with the FSA.

Decision 4: Food Business Operator Responsibility in the Poultry Sector

36. **We recommend that the FSA and TMHS should work with the poultry industry to remove the barriers to the greater use of Poultry Inspection Assistants (PIAs) in approved UK poultry plants.**
37. The full analysis of the poultry industry and FBO responsibility is in the final report. Managed properly with independent monitoring of results, this would be a good opportunity to test the extent to which a range of FBOs can deliver high

¹¹ The difference between MHS operating costs and revenue, £33m (2006/7), £34.9 (2007/8)

¹² None of our models suggests that this is achievable under current EU regulations

quality, cost-effective poultry meat inspection without relying on government Meat Inspectors. The plants would still be under the supervision of an independent OV and subject to risk-based audit by the FSA, including unannounced visits by the new Regional Veterinary Managers. Where plants are in non-compliance or judged high risk, the TMHS would provide Poultry Meat Inspectors to help improve standards at the plant's own cost.

38. The evidence that we gather from operating this model in the poultry sector would inform the FSA's discussions with the European Commission and other Member States about whether this approach should be extended to other species, starting with pigs.

Decision 5: Low Throughput plants and Local Authorities

39. We recommend that:

- a) The FSA open up the opportunity for local authorities to deliver Official Controls in low throughput premises where there is a sound business case¹³ for doing so;**
- b) The TMHS and FBOs should review the delivery of Official Controls at low throughput plants and ensure that it is as effective and efficient as possible and makes best use of the flexibilities available under EU Regulations;**
- c) By end 2007, the FSA should change UK guidance and propose national measures to the European Commission to put in place proportionate, risk-based and cost-effective controls in low throughput plants.**

40. During Phase 2 we realised that the "Local Authority workstream" was in fact two separate workstreams:

- Analysing how Official Controls are delivered in low throughput plants and the scope for simplification where risks re controlled;
- Investigating whether local authorities would be interested in delivering Official Controls in such plants and what issues arise.

41. On the first of these, our conclusion is that there is more flexibility in the EU regulations regarding low throughput plants than we are currently using. We should make maximum use of that flexibility on a risk basis, noting that low throughout does not always equate with low risk. This will require agreeing national measures with the European Commission, which the FSA should take

¹³ i.e. where a local authority solution could deliver Official Controls to a high standard at lower cost to the FBO and the FSA/TMHS than the current arrangements. The Local Authority would invoice the TMHS for its costs under the terms of the contract.

forward through the new Veterinary Meat Hygiene Division, in consultation with the TMHS and FBOs.

42. We also spoke to local authorities in England, Wales and Scotland about the possibility of their contracting with the FSA (or TMHS) to deliver Official Controls where this makes good business sense. Local authorities are legally able to do this and can also charge plants where required. Some authorities with meat plants in their areas were keen to discuss possibilities, others were more circumspect. Our recommendation to open this up as a possibility (but not to require it of local authorities) would be a way to escape from the “one size fits all” approach and start to build local solutions for local circumstances. If the Board agrees, the FSA could start be calling for expressions of interest.

Decision 6: Working with Animal Health

43. **That the FSA and TMHS work jointly with Animal Health, Defra and the Agriculture Departments and other partners to identify ways to improve joint working to promote meat safety and animal health and welfare across the food chain.**
44. During Phase 2, we have identified opportunities for closer working between FSA, TMHS, Animal Health and others that would improve communication, information exchange and the integration of services to the benefit both of meat safety and animal health and welfare. These are set out in some detail in Chapter 9 of the final report.
45. One of the results of this work will be to reduce the professional isolation of OVs working in meat plants. Linking to the work on local, low throughput premises, it would also improve opportunities for local practice vets to supply OV services to local abattoirs and cutting plants and help the longer term development of a more integrated public health veterinary service.

Decision 7: Involving Stakeholders

46. **We recommend that the FSA set up an Advisory Body for the Delivery of Official Controls.** Membership should be limited but include the FSA, TMHS, Agriculture Departments and representatives of FBOs, consumers and contractors. We recommend that this group is set up immediately following the Board’s consideration of this report to advise on plans to implement the agreed changes¹⁴.
47. This is an important recommendation to secure support for the proposed change programme and to help build co-operation and partnership working. Defra has led the way by introducing the idea of cost and responsibility sharing. They

¹⁴ This means that the Meat Hygiene Policy Forum should be redesigned or closed down to avoid overlap.

envisage setting up a joint decision making body with businesses and have used the phrase “He who pays, says.” There is now a good opportunity for the FSA to do something similar and involve those being regulated in decisions about how regulations are to be designed and implemented.

48. Creating a forum for businesses, consumers and others to advise the FSA and TMHS on the delivery of Official Controls will help ensure the success of the proposed change programme. Participants will recognise that the FSA, as Competent Authority, will ultimately have to make decisions (for example on plant approval, enforcement and interpretation of the rules), but those decisions are likely to be better with the benefit of informed advice from a group of committed partners.
49. In addition, the TMHS will need to continue its negotiations with Unison on how the TMHS model is to be delivered.

SUMMARY OF THE FIVE DELIVERY MODELS

Model 1 - A transformed MHS: The FSA continues to use its own Executive Agency (the Meat Hygiene Service) to deliver Official Controls. The MHS would be “transformed” to become more efficient and be required to reduce costs, improve productivity and build more effective partnerships with its customers, based on promoting Food Business Operator responsibility for meat hygiene and safety. This model retains direct FSA control of delivery and liability for costs and allows the MHS to retain and build on the experience and skills of its staff.

Model 2 – Control Bodies: The FSA delegates the delivery of Official Controls to one or more delivery partners (called control bodies¹⁵ in the EU Regulation). The FSA would be responsible for ensuring that Official Controls are carried out effectively and in full compliance with EU law. FSA would tender for and procure the delivery partner(s) and manage them under contract. The delivery partner would employ the Official Vets and Meat Inspectors in integrated teams and deliver the Official Controls in the plants, perhaps alongside other services.

Model 3 - Local Authority Delivery in small and lower risk plants: It is sometimes difficult and expensive to deliver Official Controls in small, low throughput and isolated plants. It might therefore be sensible and cost-effective for some of these plants, perhaps in more isolated areas where issues of local economic sustainability and viability are important, for local authorities to play a role. Local authority inspectors already visit some meat plants and have a role in enforcement, so could also be given more responsibility to manage the delivery of Official Controls.

Model 4 – More joined up working between MHS and Animal Health: This would promote better communication and some task sharing between vets doing meat hygiene work for the MHS and vets doing animal health and welfare work for Rural Affairs departments. This could deliver efficiency gains and create a more integrated career structure for ‘Public Health Vets’ with improved recruitment, retention and development opportunities. The longer-term option of full integration should remain a possibility.

Model 5 – Food Business Operator Responsibility: This involves the formal devolving of responsibility for carrying out meat inspection tasks to the businesses themselves, who would employ trained and qualified inspectors. Plants remain under independent OV supervision and the FSA would set the standards to be achieved (based on EU law) and audit the plants to ensure compliance. Under EU legislation, this model is currently allowed only in the poultry industry but could be developed further with UK poultry producers. Were this to be successful, there may be scope to extend it later to pigs and other species, subject to revising the EU legislation.

¹⁵ A Control Body is an independent, impartial third-party, accredited to EN45004 or equivalent, approved and audited by the Competent Authority to deliver specified tasks under contract

Annex 2 - Evaluation Criteria – An assessment of relative strengths and weaknesses

Category 1 Criteria	TMHS	Delivery Partner	Low Throughput / Local Authority	FBO responsibility and poultry	Working with Animal Health
Maintains meat safety	By targets	By contract	By contract	By OV input	By improved communication
Safeguards consumer confidence	Direct FSA control	Worry about private sector	Worry about local authority role	Opposes FBO responsibility	Support for more integration
Benefits exceed costs in short and long terms	In shorter term	In longer term	Does not proceed otherwise	Delivers cost savings	Very low costs
Manageable impact on staff and ongoing delivery	Challenge but Unison support	Opposed by Unison and some staff	Built around local staff availability	Need to transfer or redeploy	Little impact
Is feasible to implement	Challenge to change the culture	Challenge to set up from scratch	Challenge to build local solutions	Challenge to organise training	Challenge to secure AH support
Effective controls and levers for FSA	FSA's own agency	By contract management	LAs can sometimes be challenging	By OV and Regional Vet manager	More sharing of responsibility
Compatible with controls on animal health and welfare	As status quo	By contract management	By contract management	By training and support	Would improve links
TOTAL	18	16	18	17	19

Category 2 Criteria	TMHS	Delivery Partner	Low Throughput / Local Authority	FBO responsibility and poultry	Working with Animal Health
Builds EU and FVO confidence	Unproven	Unproven	Suspicious of LA involvement	Depends on OV supervision	Supports integrated vet services
Includes appropriate incentives for compliance and efficiency	Deliver through charging policy	Deliver through charging policy	Plants inherently less efficient	Financial incentives	Not relevant
Is the basis for a reasonable partnership with Industry	Industry sceptical of transformation	Industry support	Industry supports local flexibility	Needs assurance over training	Not relevant
Helps deliver better regulation	Monopoly supplier?	Competition and contestability	Local flexibility and adaptability	Make the FBO responsible	Joining up (Hampton)
Reflects differences and sensitivities across the UK	Regional structure	National contracts and delivery	Local solutions	Local solutions	Organisation boundaries?
Includes flexibility for future change	Subject to negotiations	Revise contracts	Revise contracts	FBOs can respond	No issues
TOTAL	14	16	15	16	17

	Meets criterion well	3 points
	Raises some issues	2 points
	More serious concerns	1 point

SUMMARY FINANCIAL ASSESSMENT

1. This annex summarises the financial implications for the FSA of deciding that the Transformed Meat Hygiene Service should deliver Official Controls during the Comprehensive Spending Review (CSR) period¹⁶.
2. It sets out, in outturn prices:
 - a) Forecast total MHS operating cost;
 - b) Forecast revenue;
 - c) Forecast net MHS operating cost, payable by the FSA (the difference between MHS costs and revenue);
 - d) Implications of the above for FSA finances;
3. Some of the figures differ from those in the final report. This is because the figures in the final report are all at today's prices (i.e. ignoring inflation) whereas these figures include an assumption about inflation, to help planning against a fixed future budget.
4. For comparison, the figures shown are for 2006/2007 (outturn), 2007/2008 (current operating budget) and forecasts for the three years of the CSR.
5. The figures have been agreed between FSA finance, the MHS and the Review programme team and are based on the figures and assumptions made in the TMHS business case about changes to MHS staffing, organisation and delivery.

Headline Conclusions

- a) Delivering the TMHS requires one off investment of up to £16m during the CSR years. This depends on being able to access EYF funding.
- b) Net operating cost to FSA reduces over the three years of the CSR period by 9%, 22% and 20%. Delivery of this reduction in net operating cost is modelled on an increased contribution from industry over the CSR period.
- c) This model allows the FSA programme budget available for other purposes progressively to increase throughout the CSR period. However any shortfall in the reduction of the net cost of meat hygiene controls to the FSA will impact on other spending programmes.

¹⁶ Financial years 2008/9, 2009/10 and 2010/11

Summary Chart of TMHS Financial Targets and Impact on FSA finances

Budgetary Impact to end of CSR2007 (outturn prices)

The TMHS proposal

	2006/07 Actual £m	2007/08 Budget £m	2008/09 TMHS £m	2009/10 TMHS £m	2010/11 TMHS £m
Total MHS operating cost	91	89	89	86	85
Total MHS Revenue	57	54	57	61	65

TMHS proposed net Operating Cost	34	35	32	25	20
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Annual reduction in MHS operating deficit			-9%	-22%	-20%
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One off investment to create TMHS (assumed covered by EYF funding)	7	8	1	-	
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FSA PROGRAMME EXPENDITURE

total available funding inc MHS	91	88	85	83	
TMHS operating cost	35	32	25	20	

Funding available for other FSA programmes	56	56	60	63	
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**REVIEW OF THE DELIVERY OF
OFFICIAL CONTROLS IN
APPROVED MEAT PREMISES**

FINAL REPORT TO FSA BOARD

19 July 2007

Disclaimer

This Report has been written by the Programme Team for the Review of the Delivery of Official Controls in Approved Meat Premises. It provides information for the Board of the Food Standards Agency, together with recommendations for future action. It does not represent, and should not be taken to represent, the official views of the Food Standards Agency, the Meat Hygiene Service or any other department or agency of HM Government.

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July 2007

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FOREWORD

I am pleased to present this report, with recommendations, to the FSA Board. My hope is that, through working together over time to carry out the proposed changes to the delivery of Official Controls, the FSA, the MHS and the Food Business Operators being regulated will discover that there are better ways to protect public health and animal health and welfare than our current approach, ways that are more intelligent, more efficient, more targeted and which make more intelligent use of the knowledge and skills of our dedicated teams of Official Vets and Meat Hygiene Inspectors.

When I started the Review in October 2006, I knew very little about the meat industry. Like most consumers, I had no idea that abattoirs had government vets and inspectors present all the time they were operating. After nine months of asking questions and seeing some excellent people at work, I have to say that it remains a mystery why this should be necessary.

Many people have tried to explain to me why fresh meat production is different from the rest of the food chain where, in the main, Food Business Operators are themselves responsible for day to day compliance, audited from time to time on a risk basis by Environmental Health Officers. Some have emphasised risks of microbiological contamination, exotic animal diseases, unscrupulous plant operators, unpronounceable parasites, BSE, Avian Flu and a host of other more or less terrible things that are ready to strike were we ever to consider relaxing Official Controls. Others have suggested that the whole meat inspection system could be swept away and plant operators trusted to comply and produce safe meat, without any significant increase in risks to public or animal health. Unsurprisingly, perhaps, the former view is most strongly held by those who carry out Official Controls while the alternative view is typical of Food Business Operators with a track record of clean and safe production who potentially face large increases in inspection costs as we move towards full cost recovery.

The truth lies somewhere between these two extremes. There are certainly abattoirs and cutting plants where standards are poor, risks are high and where the daily work of our Official Vets and Meat Inspectors really is essential to protect consumers and animals. The real question is how long such plants should be allowed to continue operating with such a reliance on the government to help them meet their legal obligations. Conversely, there are plants where standards are consistently very good and which are frequently checked by auditors from multiple retailers or certified quality assurance schemes. It is surely time that we formally recognised the differences in risks to public health and animal health and welfare between these two types of plant and were prepared to regulate them differently. Not to regulate in proportion to properly assessed risks will inevitably be a waste of money (public and private) and a misuse of our qualified OVs and MHIs. It also creates a culture of resentment and/or dependency among plant operators which stands in the way of achieving a significant and sustainable improvement in standards.

This report sets out why I believe this is so and what might be done about it. Some of the suggestions will take time, effort, patience, persistence,

resources and skilled negotiators, especially when they require changes to EU regulations. Others, such as making better use of the flexibilities in the current EU regulations to assist low throughput plants should be done quickly. Transforming the Meat Hygiene Service has already started, under the leadership of its new Chief Executive, Steve McGrath. I should like to thank Steve and his MHS team for their help and co-operation in this Review. Being reviewed is seldom easy, but Steve and his team have responded positively and worked with me to try to identify the best way forward.

We should not underestimate the difficulties of delivering change, whether in the Transformed MHS or through another delivery model. There will always be pressure from those who would prefer the apparent safety of the status quo. But nor should we underestimate the potential rewards of getting this right, not only in terms of reducing costs but, more importantly, in building better relationships with Food Business Operators, restoring professional pride among Official Vets and Meat Inspectors and encouraging our contractors to be even more innovative. While all these are worthwhile outcomes in themselves, bringing them together successfully will help the FSA to deliver one of its core priorities – safer meat and greater consumer confidence.

One of my greatest joys as Programme Manager has been the opportunity to meet so many interesting people. Without exception, you have welcomed me, told me what I wanted to know and what you wanted me to know, shown me things that work and things that don't, suggested improvements and set me some difficult challenges. I know that your expectations are high. When I started this work, I said that nobody would get everything they wanted but I hoped that everyone would get at least something. I hope that you will conclude that I have met that goal.

This Review can only set out what might be achieved. Making it happen will be the next stage and I have one piece of advice - work together and trust each other a bit more. Everyone I have spoken to since October shares the same goals – the production of safe meat, the protection of animal health and welfare, the building of consumer confidence and the future prosperity of the UK meat industry. By recognising this common agenda and taking it forward together through dialogue and co-operation rather than suspicion and recrimination, there is little that cannot be achieved.

Sadly, there is insufficient space to thank everyone by name. The annex lists all those I have met since October and who have contributed much to the Review. I would like to thank the FSA for trusting me with this interesting work. I also thank Peter Hewson for his unfailing support, David Hart, Xavier Irz, Mike McEvoy and Richard Collier for leading parts of the research and FSA/MHS colleagues in London, Aberdeen, Belfast, Cardiff and York for their helpful advice. I am also most grateful to Debby Reynolds and Jill Butt in Defra for reminding me to keep animal health and welfare firmly in the picture.

Finally, I should like to thank my own team, Clare McLean, Chris Stone and Peter Matthews, for their support, ideas and dedication and wish them every future success.

Geoff Tierney
25 June 2007

LIST OF RECOMMENDATIONS

The detailed recommendations, together with supporting analysis, can be found in the relevant sections of the report

- 1 That the FSA agree, wherever appropriate, to adopt a more risk and evidence-based approach to the regulation of meat hygiene, meat inspection activities and enforcement.
- 2 That there should be more incentives for Food Business Operators to take responsibility, with rewards and greater levels of earned autonomy for those that do and stronger, more effective sanctions against those guilty of persistent or high-risk non-compliance.
3. That the FSA should lead research, with European and international partners, into different ways to deliver safer meat, including the cost-effectiveness of the current approach and alternatives to it.
- 4 That the FSA develop and implement a strategy to secure the necessary changes to EU regulations to allow the adoption of a more risk-based, proportionate and targeted approach to meat regulation.
- 5 That the Meat Hygiene Service should continue to be responsible for the delivery of Official Controls in England, Scotland and Wales and that it should transform to deliver the targets set out elsewhere, to include:
 - Significant and sustainable reductions in the total costs of its operations (measured by total annual operating costs);
 - Improvements in productivity (measured by continuous reductions in the average cost per livestock unit);
 - Adopting charging and cost-sharing policies that reduce the net cost of its operations to the FSA;
 - Putting integrated teams of OV's and Meat Inspectors into plants and making full use of the potential of working with its contractors;
 - Introducing greater contestability into the market.
- 6 That the FSA should review the governance arrangements for the TMHS to ensure that they adequately reflect the new responsibilities. The Board should include one member with first hand experience as an FBO being regulated and one member to reflect the views of consumers.
- 7 That the FSA redesign its Meat Hygiene and Veterinary Division and establish a network of regionally based Veterinary Managers.
- 8 That the FSA and TMHS set up a forum to identify and resolve issues concerning the design of policies and their ease of delivery.
- 9 That the FSA continue its scoping work on the Delivery Partner model, including preparing a plan to pilot this approach with groups of plants.
- 10 That there should be consultation during summer 2007 on increasing hygiene throughput rates.

- 11 That the TMHS, in consultation with stakeholders, should develop a new charging system for introduction in 2009/10 that would:
 - Reflect the new arrangements for delivering Official Controls;
 - Allow a progressive move towards full cost recovery;
 - Introduce appropriate charges for SRM control;
 - Permit the more effective targeting of any subsidy;
 - Provide financial incentives to FBOs to comply and to make efficient use of TMHS services.
- 12 That policy responsibility for charging transfer from FSA to the TMHS.
- 13 That the FSA and TMHS should work with the poultry industry to remove the barriers to the greater use of Poultry Inspection Assistants (PIAs).
- 14 That the FSA open up the opportunity for local authorities to deliver Official Controls in low throughput premises where there is a sound business case for doing so.
- 15 That TMHS and FBOs should review the delivery of Official Controls at low throughput plants and ensure that it is as effective and efficient as possible and makes best use of the flexibilities available under EU regulations.
- 16 By end 2007, the FSA should change UK guidance and propose national measures to the European Commission to put in place proportionate, risk-based and cost-effective controls in low throughput plants.
- 17 That the FSA work jointly with Animal Health, Defra and the Agriculture Departments and other partners to identify ways to improve joint working to promote meat safety and animal health and welfare across the food chain.
- 18 That immediately following consideration of this report, the FSA set up an Advisory Body for the Delivery of Official Controls to include FSA, TMHS, Agriculture Departments and representatives of FBOs, consumers and contractors.

CHAPTER 1:

INTRODUCTION

1.1 In October 2006, the Food Standards Agency (FSA) Board, at the request of the Meat Hygiene Service (MHS) Board, commissioned a review into the delivery of Official Controls in approved meat premises. The Terms of Reference were:

“To review the delivery of Official Controls in approved meat premises and to consider a range of options for the future, including the current model and alternatives to it.”

1.2 The FSA Board agreed that the objective of the Review should be

“To ensure that the delivery of Official Controls in approved meat premises is providing necessary consumer protection in a targeted, risk-based and proportionate way that represents value for money for operators, taxpayers, consumers and government.”

1.3 They also agreed the scope of the Review as follows:

- “Official Controls” should include all matters covered by the relevant EU¹ and UK regulations on meat hygiene, animal health and welfare and public health in relation to fresh meat production. It is important to remember that, while the FSA is the Competent Authority for food safety, Defra and the devolved Agriculture Departments are the Competent Authorities for animal health and welfare and, as such, are major customers of the MHS.
- “Approved meat premises” should include abattoirs, cutting plants, game handling establishments and other co-located meat plants.
- The Review would gather information from and consider principles that could apply across the whole UK. However, it would not make proposals to change the delivery of Official Controls in Northern Ireland by the Department of Agriculture and Rural Development on behalf of FSA Northern Ireland. Following the Review, any work to prepare such proposals would need to be agreed between DARD, the FSA and the Health Minister in Northern Ireland and, if so agreed, would form Phase 3 of the programme.

1.4 A Steering Group was set up in October 2006 to help guide the programme, with representatives from the FSA (London and the

¹ Regulation (EC) 882/2004 on Official Controls to ensure the verification of compliance with feed and food law, animal health and welfare rules. Regulation (EC) 852/2004 on the hygiene of foodstuffs. Regulation (EC) 853/2004 laying down specific hygiene rules for food of animal origin. Regulation (EC) 854/2004 laying down specific rules for the organisation of Official Controls on products of animal origin intended for human consumption.

devolved offices in Aberdeen, Belfast and Cardiff), the MHS, DARD² and Defra.

1.5 The work was organised in two phases.

Phase 1 of the Programme

1.6 **Phase 1** reported to the FSA Board in February 2007³. This interim report presented a number of possible delivery models, together with a high-level analysis of their advantages and disadvantages and a summary of stakeholder views. It also set out proposed principles for charging and cost sharing, together with some ideas on how Official Controls could be designed and implemented in more risk and evidence based ways.

1.7 The Phase 1 report identified the following five possible approaches to the future delivery of Official Controls, while noting that hybrids and variations were both possible and potentially useful:

1. **Transformed MHS.** The MHS would continue to deliver Official Controls in England, Scotland and Wales as an agency of the FSA. It would transform to achieve significant cost savings and performance improvements. This approach would retain and build on the MHS' experience and expertise in meat inspection and keep Meat Inspectors⁴ in the public sector.
2. **Delivery by Control Bodies.** Under EU legislation⁵, the Competent Authority can delegate the delivery of Official Controls to one or more control bodies. A control body is an independent third-party organisation, accredited to EN45004⁶ or equivalent, approved and audited by the Competent Authority to deliver specified tasks under contract. The FSA could choose to contract a single control body or to establish a competitive market of control bodies. This approach would reduce costs and would involve transferring Official Veterinarians (OVs) and Meat Inspectors to work as integrated teams in the new delivery body or bodies.
3. **Food Business Operator Responsibility.** This model involves devolving as much responsibility as possible to food businesses for the production of safe and clean food, with FBOs undertaking the day to day inspection tasks wherever possible. The FSA as Competent Authority would continue to set the standards, approve plants, enforce the controls and audit the Food Business Operators to ensure they are complying. Approved plants would continue to be under the supervision of an independent Official

² DARD delivers Official Controls in Northern Ireland under a Service Level Agreement with FSANI.

³ FSA 07/02/05 Review of Models for Delivering Official Controls in Approved Meat Premises: Report of Phase 1

⁴ The terms Meat Inspector and Meat Hygiene Inspector (MHI) mean the same thing and are UK terms. The equivalent term in the EU regulations is Official Auxiliary.

⁵ Regulation (EC) 882/2004 on Official Controls performed to ensure the verification of compliance with feed and food law, animal health and animal welfare rules.

⁶ EN45004 is a European Standard that sets out general criteria for the operation of various types of bodies performing inspection.

Veterinarian. Under current EU legislation, this model is possible only in the poultry industry, but there are opportunities to develop it further with poultry producers by resolving issues around incentives and access to training.

- 4. Low throughput plants and local authorities.** Local authorities were responsible for meat inspection prior to the creation of the MHS in 1995. While there is no proposal to transfer responsibility back to local authorities as a whole, there is some evidence that local authorities could play a greater role for low throughput plants in rural or isolated areas where risks are judged to be low. For these types of plant, local authorities might be able to offer a cost-effective and quality service, based on flexible use of local vets and more sharing of work between suitably qualified Meat Inspectors and Environmental Health Officers.
- 5. Joining up Official Veterinary Services.** This model proposes more joint working between the vets doing meat hygiene work for the MHS and those in Animal Health (formerly the State Veterinary Service) doing animal health and welfare work for the Rural Affairs Departments. This could open up opportunities for more vertical integration, easier information sharing between farms, abattoirs and cutting plants and a more coherent, joined up inspection and enforcement regime.

Charging and cost-sharing

- 1.8 The Phase 1 report also included a summary of progress on charging and cost sharing. It addressed three distinct but related issues:
 - FSA proposals for the short-term (2008/9) to increase headage rates and to introduce charges for supervision of Specified Risk Material (SRM) controls;
 - The need to co-ordinate with similar proposals by Defra and the devolved Agriculture Departments on cost and responsibility sharing, in particular modelling the likely impact on affordability and plant viability;
 - Principles that should inform longer-term proposals on costs and charging.
- 1.9 The starting point for the work on charging and cost-sharing has been the FSA's decision to move progressively towards full cost recovery. This means that, over time, Food Business Operators should pay charges that reflect the real costs of providing Official Controls. At present businesses pay an average of some 41% of the total MHS cost of delivering meat hygiene controls. The remaining 59% (£33.3m in 2006/7) is paid for by the FSA as a type of subsidy.
- 1.10 This is a complex area, not least because there is not yet any agreement with meat plant operators to move towards full cost recovery. The position of food businesses is that any agreement to pay

more would have to follow a commitment by the FSA to bring the total costs of delivering Official Controls to an agreed, acceptable level. That, of course, should be one of the outcomes of this Review. Further, it is also essential to develop models for charging that are equitable and fair and which provide strong incentives both to businesses and inspection bodies to manage their work efficiently. Finally, there are important questions around the economic vulnerability of small, low throughput plants, often in rural areas that will probably never be in a position to pay the full costs of their inspection, whichever charging system is finally chosen.

Evaluation Criteria

- 1.11 Another important part of the Phase 1 work was to agree a set of evaluation criteria against which different models for the delivery of Official Controls should be assessed.
- 1.12 The Phase 1 report to the Board included an initial assessment of the main delivery options against these criteria. The Board asked that, in Phase 2, the evaluation criteria should be weighted to reflect their relative importance. In considering this challenge, the programme team concluded that assigning numerical weights to each of the 13 criteria would be a subjective exercise and that different individuals would be likely to prioritise different things. Further, as was evident to an extent during discussions of the Phase 1, assigning numbers or scores to a series of options runs the risk of appearing to provide a reliable statistical and rational justification of what, at worst, might be little more than an expression of personal opinion.
- 1.13 Instead, we propose distinguishing between the criteria by dividing them into two categories:
 - Category 1 criteria – These are the criteria that are critical to FSA's responsibilities and decision making. A low assessment could effectively rule out a delivery option.
 - Category 2 criteria – These are important criteria that impact more on the wider environment. They would help build a successful, credible and sustainable delivery model moving forward. For a delivery model to be viable, it should have a majority of these criteria with positive assessment
- 1.14 On this basis, we have divided the agreed evaluation criteria as shown in Table 1.1.

Table 1.1 Categorisation of Evaluation Criteria

Criterion
Category 1 Criteria
Safeguards meat safety
Maintains consumer confidence
Benefits exceed costs in the short and long term
Has a manageable impact on staff and ongoing delivery
Is feasible to implement
Includes effective controls and levers for FSA
Is compatible with Defra requirements to deliver controls on animal health and welfare
Category 2 Criteria
Builds EU and FVO ⁷ confidence
Includes appropriate incentives for compliance and efficiency
Is the basis for a reasonable partnership with industry
Helps deliver better regulation
Reflects differences and sensitivities across the UK
Includes flexibility for future change

- 1.15 Clearly there is scope for discussion of this division and there might be good reasons to move a particular criterion from one category to another. Equally, the criteria are not mutually exclusive and there are interdependencies. For example, any system that safeguards meat safety might reasonably be expected to help build EU and FVO confidence and to include effective controls and enforcement tools for the FSA.
- 1.16 As part of the Phase 2 analysis, we have evaluated the five main delivery proposals against these criteria. The assessment against the evaluation criteria can be found in Annex G.

Phase 2 of the Programme

- 1.17 At its February 2007 meeting, the FSA Board agreed the recommendations in the Phase 1 report and gave the following guidance for Phase 2 of the Review⁸.
1. The most important outcome is to maintain the safety of meat;
 2. There should be a focus on transitional risks and how to manage them;
 3. Considerable efforts had been made to transform the MHS, but Phase 2 of the Review must continue to be evidence based and free from prejudice. All models and recommendations must be considered equally and openly;

⁷ European Commission Food & Veterinary Office (FVO)

⁸ FSA 07/03/01 Minutes of the February 2007 Open Board Meeting

4. Phase 2 should set out clearly that FBOs must take more responsibility for meat safety and the FBO option should be kept on the table, regardless of barriers from costs or EU regulations. If EU regulations were a barrier, FSA should work now in Europe to secure the necessary flexibility;
 5. The potential streamlining of the State Veterinary Service (now Animal Health) and the MHS should be considered as a process of constant evolution, not a two-stage model;
 6. There should continue to be consultation with the Devolved Administrations, including lessons learnt from the Republic of Ireland and the cross-border issues;
 7. Open consultation should continue during Phase 2, and the Board should be kept informed of developments.
- 1.18 **It is important to emphasise that, under all options, the Food Standards Agency will remain the UK Central Competent Authority under EU legislation with responsibility to ensure the delivery of Official Controls and to levy the appropriate obligatory charges.**

RISKS AND ISSUES

1.19 Throughout the Review, we have identified a number of risks that will need careful management throughout any change process, whether this is a Transformed MHS or a Delivery Partner model. These risks are described below, together with some commentary and suggestions for managing them.

- 1 **Securing meat safety** - This is the FSA's primary objective. Although any new model needs to be more risk-based, targeted, proportionate, efficient and cheaper than the current system, it should not increase the risks to meat hygiene and safety by lowering (or being perceived to lower) inspection standards. In its response to the Review, UNISON has stressed the need to improve standards of meat hygiene in UK plants, arguing that the current standards fall well short of what should be acceptable to the FSA. Moving forward, it will be important to clarify more precisely what are the FBO's responsibilities in relation to meat safety and what are the responsibilities of the government's staff (OVs and Meat Inspectors).

Risk management: It would be useful for the FSA to commission independent research in parallel with the change programme to monitor standards of meat hygiene in plants to check that there is no reduction in standards.

- 2 **Retaining consumer confidence** – Rightly or wrongly, consumers tend to be reassured by the permanent presence of government Official Veterinarians and Meat Inspectors in abattoirs. They are also suspicious of proposals to target inspection more effectively or to contract out inspection duties, as they believe these are really cost cutting measures that will inevitably reduce standards and increase risks. Our research has shown

that consumers say they favour keeping meat inspection as an independent, public sector activity (the Transformed MHS model) and would be opposed to “privatisation” or the introduction of a profit motive. They also say that they trust the FSA to make the right decision and to maintain the quality of the Official Controls delivery system. Few consumers are aware of the current use of private contractors to supply OVs.

Risk management: Invite consumers and their representatives to discussions on implementing new approaches and in the monitoring of results. Build consumer awareness of what happens in other countries and of the organisations (private and public) promoting meat safety.

- 3 Managing expectations** – It is clear from our discussions that most stakeholders have high expectations of the Review and subsequent FSA decisions. We have enjoyed very high levels of stakeholder interest and received many useful contributions. While it will not be possible to satisfy everyone, we would like stakeholders to understand and support the review process and to see the logic of whatever decisions may emerge. There is a strong feeling, for example among industry representatives and Meat Inspectors that they would like to continue the dialogue and improve communication moving forward.

Risk management: Both MHS and FSA should find new opportunities to engage openly with stakeholders, to explain the agreed way forward and to seek their active support. There is a particular wish among meat industry representatives for more sharing of responsibility with the FSA and MHS and a positive response to this would be helpful.

- 4 Managing the UK’s reputation in the EU** – Moving to a more risk and evidence based approach to inspection might lead the European Commission and the Food and Veterinary Office (FVO) to be more suspicious of how we implement EU law and result in damage to our reputation and increased EU and/or FVO monitoring and inspection visits. We have discussed the different options with the European Commission (FVO and DG Sanco) and the feedback has been clear. It is for Member States to determine how they carry out Official Controls in light of their obligations under EU regulations. The FVO is interested in evidence that the Official Controls are being properly implemented, rather than in precisely which delivery model we adopt. Indeed, in our discussions during Phase 2 with other Member States, we have discovered a range of different approaches.

Risk management: Ensure that the European Commission (FVO and DG Sanco) are fully aware of the changes we make and respond to their questions and concerns. FSA/MHS to ensure that there is properly documented evidence always available to show that the UK is implementing Official Controls properly. FSA (as Competent Authority) to

get more involved in audit of what happens on the ground, including through unannounced visits from the Regional Veterinary Managers.

- 5 Working with Other Government Departments** – Throughout the Review, we have worked closely with Defra as the Central Competent Authority for animal health and welfare and major customers of the MHS. Defra's proposals for cost and responsibility sharing⁹ are linked to FSA proposals for full cost recovery and likely to impact on the same approved premises. For these reasons, we are pleased to have enjoyed such good co-operation with Defra, including the participation of the Chief Veterinary Officer on our Steering Group and joint economic modelling of the impact and affordability of cost sharing proposals. It will be important to keep this level of cooperation moving forward and also to secure support from Treasury, Health and the Better Regulation Executive for future models.

Risk management: Ensure that Defra continues to be involved in decisions about the implementation of new delivery models so that animal health and welfare concerns are fully reflected. Consider how to communicate the results of the Review as an example of better regulation, including meeting the concerns of small businesses and rural sustainability

- 6 Managing the potential impact on low throughput and geographically constrained plants** – Any proposals to increase charges, unless carefully structured and introduced, will impact disproportionately on smaller, low throughput plants currently operating at the margin of profitability. This will raise important issues around sustainability, rural economic development, local food sourcing and food miles, animal transport to slaughter and diversity and will need sensitive handling.

Risk management: FSA/MHS to conduct specific negotiations with FBOs of low throughput plants and their representatives to agree (a) proportionate but effective systems to deliver Official Controls, (b) increases to current hygiene charges and (c) how to move from a headage charge (the Maclean formula) to more of a real cost, time based approach. FSA also to talk to Defra and the Agriculture Departments about rural economic sustainability issues and the case for ongoing subsidy for small, rural meat plants.

- 7 Managing the impact on the MHS** – During a time of change, the MHS will need to minimise the risks to current delivery and impacts on its staff and contractors from things such as staff morale, union sensitivities, recruitment and retention, relationships with plant operators and financial pressures. Our research has shown that there is already a serious lack of confidence among many MHS staff, especially front line staff, in the organisation and its capacity to change. One of the most striking impressions from our discussion with Meat Inspectors was a low level of morale and that many of them were looking to the Review as an

⁹ Defra Consultation Paper: Responsibility and cost sharing for animal health and welfare: principles (December 2006)

opportunity to change their job. More optimistically, we have also come across many excellent MHS staff who are passionate about what they do and eagerly anticipating an opportunity to do it better as part of a different organisational structure.

Risk management: Ensure that the MHS has access to people with the right skills and experience to manage this potential crisis properly, including bringing in people from outside if necessary. Provide opportunities under the Review for voluntary early retirement and/or voluntary redundancy, movement between jobs and plants, retraining and career development. Include measures of staff satisfaction in MHS performance targets.

- 8 Delivering on agreed time scales** – While the Review has successfully delivered on time, it includes some fairly demanding timetables for the implementation of whatever changes are agreed. This is not only because the financial pressures on the FSA during the Comprehensive Spending Review (CSR) period will be serious, meaning that changes to reduce costs and/or increase revenue are needed sooner rather than later. It is also because, having raised expectations and created a momentum for change, it is vital that the FSA is not seen to lose the initiative or to lack the drive and determination to see the changes through.

Risk management: Create a small, dedicated programme team to make sure the changes happen by agreed deadlines, with personal accountability for delivery. FSA Board to set appropriate targets for MHS and its responsible officers with effective incentives for their delivery. FSA Board to ensure that it has regular progress reports on delivery, including achievement against key performance indicators. FSA to set up an independent monitoring group (consumers, industry, government, independent chair) to monitor progress and advise the FSA Board accordingly.

- 9 Providing resources** – The business cases attached to the different delivery models set out clearly the forecast up-front investment and ongoing additional programme management costs that putting in place a new delivery model is likely to require, be this TMHS or a Delivery Partner. The FSA needs to ensure that the necessary resources are available in order that the agreed changes are delivered.

Risk management: Once the FSA Board has decided the future direction, the forecast investment and other costs of change should formally be agreed (based on the model analysis but adjusted to match the agreed way forward) and provided according to an agreed schedule. The FSA should monitor the results of this investment to ensure that it delivers the efficiencies expected and be ready to change the approach if this does not happen.

- 10 Working with the Devolved Administrations** – It has become clear during Phase 2, particularly following the elections in Scotland, Wales and

Northern Ireland, that one size will probably not fit all in future. Northern Ireland already has its own model and FSA Northern Ireland and DARD, the delivery body, are currently negotiating some excellent new contract and governance arrangements. The new Service Level Agreement that they have drafted and are discussing would provide a good starting point were the FSA to decide to tender for a Delivery Partner. Scotland and Wales have also begun to think more about how the delivery of Official Controls might be adapted to their own particular needs and circumstances, especially where questions of charging and cost-sharing are concerned.

Risk management: Create opportunities to involve the Devolved Administrations in decisions about the delivery of Official Controls. Ensure that whichever delivery model goes forward includes opportunities for different approaches in Scotland, Wales and Northern Ireland.

1.20 In the Phase 1 report¹⁰, we set out some of the issues relevant to the delivery of Official Controls in the Devolved Administrations. During Phase 2, we have spoken to a range of stakeholders in Scotland and Wales¹¹ and the following points have emerged to help guide discussions moving forward:

1. There is fairly general support for moving to a more risk based approach to regulation with opportunities for earned autonomy.
2. There was a strong feeling that, in order to deliver sustainable change, the industry needs to be much more closely involved and to feel a sense of ownership. The Scottish industry in particular argues strongly for more formal responsibility sharing with government and regulators through some kind of joint board. The view in Scotland is that there is already a better partnership between regulators and industry than in England and that lessons could be learned from this.
3. There was widespread concern about the proposals to move to full cost recovery and the likely impact on affordability and the viability of plants, especially low throughput plants in rural or isolated areas. The team heard about the issues at first hand when we visited the small slaughterhouse on the Isle of Mull. There was a strong message from both Scottish and Welsh farmers and meat producers that some kind of subsidy was likely to be required into the future to ensure that the already fragile network of rural abattoirs is not further reduced. Some stakeholders felt that these issues could be more easily dealt with by the Devolved Administrations than by being part of a UK wide programme of full cost recovery.

¹⁰ FSA 07/02/05 Review of Models for Delivering Official Controls in Approved Meat Premises, p50

¹¹ Listed in Annex C

4. Further to the above, there was support for finding more flexible options for the delivery of Official Controls in low throughput plants, making better use of practice vets, locally resident Meat Inspectors, Environmental Health Officers and Local Authorities. Many of the points explored in Chapter 7 were strongly supported by stakeholders in Scotland and Wales. Further, local authority representatives in Wales and Scotland expressed an interest to look in more detail at options for their involvement in delivering Official Controls where this could be cost effectively integrated into their other work. They were clear, however, that this should be on the basis that a local authority might bid for the work under contract with the FSA, rather than it being given to them whether they like it or not.
5. Although views varied in detail, there was a general feeling that, provided Official Controls were delivered in an efficient and cost-effective way in partnership with business, it would not matter very much whether they were delivered by the Transformed MHS or by an independent Delivery Partner. Some felt that Official Controls would be more easily adapted to national circumstances if there were delivery bodies based in Scotland and Wales, focusing their attention on meeting particular needs. Some thought this would require separate delivery bodies for Wales and Scotland and some organisations there were interested to discuss whether they might play a role. Others believed that a Transformed MHS could provide a flexible service by having separate offices to look after Scotland and Wales. One issue that might need special attention in Scotland would be the treatment of game handling establishments.
6. Others felt that it was important to keep consistency in standards and costs of meat inspection throughout the UK and would favour a single delivery body covering England, Scotland and Wales.
7. Although the review is not making proposals for change in Northern Ireland, we have had some interest from stakeholders there and support for a more risk based, proportionate and cost-effective service that reflects the importance of meat exports to the Northern Ireland economy. A specific request was that the recommendations that emerge from the Review should be looked at to see which might be useful to implement in Northern Ireland. As both FSA Northern Ireland and DARD have been part of the Programme Steering Group, this should be easily achievable.
8. Some pointed out that FSA (NI) has direct experience of managing the delivery of Official Controls by contracting directly

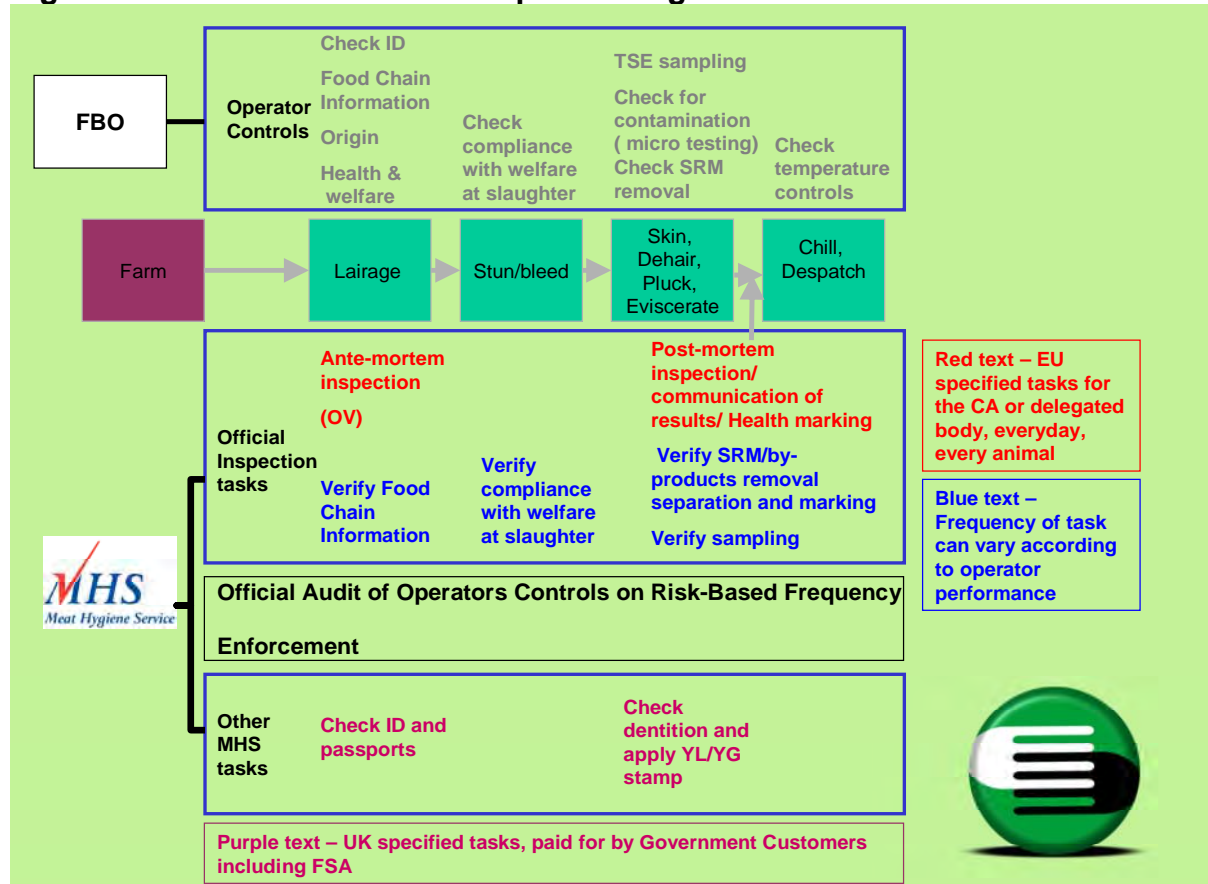
with a third party delivery organisation and we could learn from that, although there were differences between contracting a government department and a private sector organisation. One interesting idea that emerged from a discussion in Northern Ireland was that there could be choice of delivery partner for the 95% of plants that comply and meet high standards while the small number of non-compliant or risky plants should stay firmly under the control of the TMHS.

- 1.21 The above analysis of risk and proposed management approach is provided to inform the Board's decision at the July meeting and to give a head start to the implementation phase of the programme.
- 1.22 We strongly advise that the programme team entrusted with delivering whatever emerges from the July Board should review this risk register and amend it as necessary in light of the Board decision.

CHAPTER 2:

DELIVERY OF OFFICIAL CONTROLS IN THE UK TODAY¹²

Figure 2.1 Tasks involved in Implementing Official Controls





2.1 Official Controls are specified in directly applicable European Regulations, in force across the food chain since 1 January 2006. Two important principles are that Official Controls should be risk based and that Food Business Operators are responsible for food safety. In the meat area, however, the regulations have retained many of the more prescriptive rules from previous directives, such that the current situation for meat is an anomaly.

- The Food Business Operator is responsible for meat safety, through applying Hazard Analysis and Critical Control Point (HACCP) controls. An Official Veterinarian (OV) appointed by the Competent Authority audits the operator's controls on a risk-based frequency.
- Approved cutting plants, considered lower risk than slaughterhouses, no longer need permanent OV presence or daily visits. The OV audits the plants on a risk-based frequency of between 2 to 8 months.

¹² Note: This was described more fully in the Interim Report (FSA 07/02/05 Review of Models for Delivering Official Controls in Approved Meat Premises: Report of Phase 1)

- In slaughterhouses, the OV must carry out day to day tasks and may be assisted by Meat Inspectors (termed Official Auxiliaries in the EU Regulations). The tasks include checking the operator's controls, ante-mortem inspection of animals and post-mortem inspection of carcasses, together with health marking red meat and large game meat carcasses.
- 2.2 EU regulations require Member States to designate a Central Competent Authority (CCA) responsible for ensuring that Official Controls are carried out in accordance with the regulations. **The Food Standards Agency (FSA)** is the CCA for the UK (England, Scotland, Wales and Northern Ireland). FSA responsibilities include setting overall meat hygiene policy, approving plants, suspending or revoking approval and decisions on enforcement action. The FSA must also audit the delivery agency to ensure that Official Controls are being carried out appropriately in UK meat plants.

Figure 2.2 Responsibilities & Activities in the Delivery of Official Controls

	Core Responsibilities and Activities	Who
Central Competent Authority	<ol style="list-style-type: none"> 1. Overall meat hygiene policy 2. Building public confidence in standards of control and inspection 3. Assuring the proper delivery and quality of Official Controls through accreditation and performance management of delivery agencies and systems 4. Plant approval and revocation of operating licence 5. Enforcement decisions 	
Audit Tasks	<ol style="list-style-type: none"> 1. Audit and Performance Management of the frontline inspection service 2. Audit of Food Business Operator's controls 	
Inspection Tasks	Tasks reserved for Official Veterinarians <ol style="list-style-type: none"> 1. Ante-mortem inspection of animals 2. Inspection and verification of Food Business Operator's controls 3. Emergency enforcement if required. 4. Routine enforcement and action related to improvement notices and ensuring compliance 	 DARD in Northern Ireland
	Tasks for OV and/or Meat Inspectors <ol style="list-style-type: none"> 1. Post-mortem inspection 2. Health marking of carcasses 3. Services for Defra, Rural Payments Agency, Veterinary Medicines Directorate, including sampling 4. Verification of Specified Risk Material (SRM) controls 	

- 2.3 In England, Scotland and Wales, Official Controls are carried out on behalf of the FSA by the **Meat Hygiene Service**, which, as an Executive Agency of the FSA, is legally part of the FSA itself.
- 2.4 In Northern Ireland, the **Department of Agriculture and Rural Development** (DARD) carries out the Official Controls on behalf of the FSA under a Service Level Agreement.
- 2.5 The Meat Hygiene Service (MHS) was established 1 April 1995 when it took over meat inspection duties from local authorities and became the single agency responsible for the enforcement of meat hygiene legislation in Great Britain (GB). On 1 April 2000, the MHS transferred from the Ministry of Agriculture, Fisheries and Food (MAFF) to become part of the newly-created FSA.
- 2.6 As the MHS is the only government agency present full-time in approved abattoirs, it is well placed to carry out testing and surveillance on behalf of Other Government Departments and agencies. It conducts this work under formal Service Level Agreements (SLAs) with the customers for its services.
- **FSA** – principal activities include the supervision of Specified Risk Material (SRM) removal and disposal and some animal by-product controls.
 - **Rural Affairs Departments** – the main activities are by-product controls, animal welfare and collection of tissue samples for veterinary medicine residues in meat. The MHS also supervises the BSE testing of Over Thirty Month (OTM) cattle for human consumption and ensures that cattle born pre August 1996 do not enter the food chain.
 - **Rural Payments Agency** – verification of cattle identification and supervision of Older Cattle Disposal Scheme.
- 2.7 In Northern Ireland, the delivery of Official Controls is undertaken by the Department of Agriculture and Rural Development (DARD) under a Service Level Agreement with the FSA. Responsibility for delivery lies with the Veterinary Service Group (VSG), headed by the Chief Veterinary Officer for Northern Ireland.
- 2.8 This arrangement brings together in one organisation delivery responsibilities for animal health and welfare, movement control and enforcement on farms and Official Controls in approved meat premises. In design and structure, therefore, it is capable of delivering some of the advantages described elsewhere in this report concerning joining up public health veterinary activities and placing integrated teams of OVs and Meat Inspectors into plants.

CHAPTER 3:

FUTURE VISION

- 3.1 This chapter sets out what a future vision of regulation in the meat production sector could look like. It follows the better regulation principles of focusing primarily on the outcomes to be achieved and, wherever possible, leaving it to Food Business Operators to determine how those outcomes can best be delivered – and to demonstrate that they have done so. It follows the five principles of good regulation, meaning that, where government decides it does need to intervene, it does so in ways that are proportionate, accountable, consistent, transparent and targeted.
- 3.2 We might also find it useful to ask how the necessary costs of ensuring meat safety and animal health and welfare can be determined. For example, we might usefully decide on the basis of research and risk analysis what level of meat safety we require. Given that safety is a relative concept – things are usually more or less safe rather than absolutely safe or absolutely unsafe – it is relevant to ask how much meat safety consumers are (or should be) prepared to pay for. Put another way, could the £30m per year that the FSA currently spends keeping the Meat Hygiene Service in business be spent differently and achieve a greater reduction in meat-related food poisoning incidents (assuming that this is the agreed measure of the return we get from investing in meat hygiene controls)?

A focus on outcomes

- 3.3 The outcome to be achieved is described in the objective of this Review.

“To ensure that the delivery of Official Controls in approved meat premises is providing necessary consumer protection in a targeted, risk-based and proportionate way that represents value for money for operators, taxpayers, consumers and government.”

- 3.4 To achieve this, we will need to identify ways to:
- Secure the safety of meat that enters the food chain;
 - Build consumer confidence in the safety of UK produced meat;
 - Safeguard the health and welfare of animals at slaughter;
 - Improve efficiency and value for money.
- 3.5 On the basis of our work so far with the Review, we can say the following about these desired outcomes:

Securing the safety of meat that enters the food chain.

- 3.6 The FSA’s prime responsibility is to secure the safety of the meat that goes into the food chain. It does this by implementing a complex series of international, European and domestic regulations which cost over

£90m to deliver in 2006/7. But how do we know whether the system is working? Research tells us that, on average, some 47% of UK food poisoning incidents arise from meat contamination¹³. The overall incidence of food poisoning tends to be reducing slowly and there is some evidence that levels of meat hygiene are also gradually improving. Note also, however, that UNISON, following a survey of its members in 2006, asserts that there are still high levels of contamination on meat from UK abattoirs. They also say that this suggests that Hazard Analysis and Critical Control Point (HACCP) systems, designed to underpin FBO responsibility, are not working. On this basis, UNISON argues for tighter government controls on meat producers and opposes a risk-based approach if this would lead to any reduction in inspection by government appointed Meat Inspectors. While this position is understandable, it risks focusing too strongly on inputs (government employed Meat Inspectors present all the time on slaughter lines) rather than asking what government should be doing to assist FBOs to achieve the desired outcomes.

- 3.7 There seems to be limited evidence to show how effective our current meat inspection systems are in identifying hazards, stopping unfit meat entering the food chain and building FBO skills and responsibility. Nor do we know whether the government deploying Official Veterinarians and Meat Inspectors every day in abattoirs is the most cost-effective way to achieve the required outcomes. One alternative view is that focusing all this attention on what happens in abattoirs and cutting plants is disproportionate and fails to target other critical control points in the meat chain (perhaps transport, storage, preparation or cooking) where driving up standards could lead to greater and more sustainable reductions in rates of food poisoning.
- 3.8 We simply do not know – and this is odd, given that the EU Official Controls regulations are extraordinarily prescriptive, setting out not what should be achieved in outcome terms (e.g. safer meat, lower levels of contamination, reduced food poisoning) but exactly what processes and checks have to be provided, by whom, when and how. We have been unable to find anywhere even a basic cost-benefit analysis that would justify this approach. Without a more persuasive, science and evidence based justification of why the existing EU Official Controls are the best way to secure meat safety, it will be difficult to persuade businesses to invest more in delivering them and to persuade consumers or producers to pay more for them.

Meat Hygiene and TSE¹⁴ Regulations

¹³ Mainly by campylobacter, salmonella and verotoxic e.coli.

¹⁴ Transmissible Spongiform Encephalopathies

- 3.9 The EU TSE Regulations (e.g. SRM¹⁵ controls, cattle identity checks, OTM¹⁶ testing) are additional to the meat inspection and hygiene regulations. These controls are designed to reduce exposure to TSE agents through meat. They have changed little since their introduction in 1996, except for the introduction of OTM cattle testing in 2005. As the levels of BSE in UK cattle are now significantly lower, the high levels of supervision and control in the regulations would seem to be out of proportion to the risks. This creates the opportunity to design some more proportionate and better targeted regulation.
- 3.10 Despite this scope for a progressive reduction in controls and some limited movement at EU level, the pace of change is slow. While acknowledging that there are risks in proposing reduced (or better targeted, depending on your viewpoint) TSE controls, particularly with uncertainty around atypical scapie, we believe that the FSA should take the initiative with its European and international partners in developing proposals for a new regulatory approach.
- 3.11 **One recommendation moving forward is therefore that the FSA should lead research, with European and international partners, to look into different ways to deliver safer meat, including the cost-effectiveness of different approaches.** This research should also look at (a) what we mean by “safe meat” and the standards expected and (b) how those standards might be measured and monitored to see whether or not they are improving in response to whatever investment we make.

Building consumer confidence in the safety of UK produced meat

- 3.12 We have undertaken research into consumer views of meat safety, meat inspection and the scope for simplifying Official Controls or moving the responsibility more to Food Business Operators. The findings are summarised in Chapter 4 Stakeholder Engagement and Communication, but the main points are:
- Consumers have high levels of confidence in the FSA as Competent Authority to protect them from unsafe food;
 - Consumers are unaware that there are government vets and Meat Inspectors in every abattoir but, when told about it, are reassured. They also think that this is a good use of public money;
 - Consumers say that they would be concerned were the inspectors to be withdrawn, as they have lower levels of trust in the meat industry. This could be less of a problem where other trusted players (e.g. a supermarket) can provide its own guarantee or reassurance that what it is selling is safe;

¹⁵ Specified Risk Material

¹⁶ Over Thirty Months cattle

- Consumers would be concerned were the Food Business Operators to take over responsibility for meat inspection from the government, as they believe they would no longer be independent;
 - Similarly, consumers would not readily trust an independent company to provide meat inspection services where there was a direct financial transaction between the provider and the FBO. They perceive scope for conflicts of interest and reduced standards of independent control.
- 3.13 Things such as the history of BSE, periodic incidences of e-coli or salmonella and the media treatment of Avian Influenza together tend to encourage at least some people to view meat as suspicious and potentially dangerous. However, retail data suggests that sales of meat to UK consumers are stable or rising and that, when given a choice, they would prefer UK over imported meat. At least in their behaviour, therefore, consumers seem to demonstrate some level of confidence in the safety (and quality) of UK meat.
- 3.14 Moving ahead, it will be vital for the FSA to work with consumers to talk through the issues around meat safety and the delivery of Official Controls, building on the current levels of awareness, confidence and trust. It will not be enough to assert that any new system to deliver Official Controls is good and should therefore be supported. We would recommend ensuring that consumer representatives are fully part of the governance arrangements for any new delivery system and play an active part in its evaluation.

Safeguarding the health and welfare of animals at slaughter

- 3.15 Although this is not an FSA responsibility (Defra and the Agriculture Departments are the Competent Authorities), it is a critical part of the Review because the MHS delivers these Official Controls in abattoirs under contract to the Agriculture Departments. Further, Defra (and its agencies) pay more than £20m each year to the MHS for a range of services to promote animal health and welfare at slaughter.
- 3.16 Perhaps this is the area of Official Controls where it is easiest to see the justification for the presence of Official Veterinarians. It is an absolute requirement of the EU regulations that every animal is checked by an OV prior to slaughter (ante-mortem inspection). This allows the OV to verify that the animal does not show signs of mistreatment that could raise animal welfare questions. Where issues of animal welfare arise, the OV can share information with farmers, hauliers and others in the supply chain to ensure that problems are addressed, including taking forward prosecutions if necessary. OVs in plants are also in the front line of surveillance of animal diseases. For example, it is frequently mentioned that the UK's last major outbreak of Foot and Mouth disease

was first detected by a Meat Inspector at an abattoir in Essex and the OV there raised the alarm.

- 3.17 In addition, the EU regulations require that every carcass be inspected by an OV (or an Official Auxiliary working to them) to check for the presence of particular diseases, parasites or other problems that could make the meat unfit for human consumption. This internal inspection of the carcass and its organs also provides OVs with valuable information about the prevalence of certain diseases in animals that can (a) be communicated back to the farmer to inform his management and (b) be collected to form part of national disease surveillance. Given the high potential costs associated with outbreaks of animal diseases, having OVs in plants provides an important early warning and alert system and a network of qualified people ready to act quickly should it become necessary.
- 3.18 Having said all this, we have still found it quite hard to find people who argue that the permanent presence of a fully qualified Official Veterinarian in every approved abattoir is a sensible use of resources. There is widespread support for the idea that every plant should have a designated vet who should be available quickly in case a professional diagnosis or judgement is required. Under such a system, the day to day checking and monitoring could be undertaken more cost effectively by qualified plant staff or Meat Inspectors and they could call the vet when necessary. Under the current EU regulations, this approach would be illegal, except in small, low throughput, low risk plants where there is greater flexibility.
- 3.19 We would recommend that Defra and the Agriculture Departments undertake some research jointly with the FSA, farmers, FBOs and consumers to assess whether there could be a more risk-based, cost-effective approach to the supervision of animal health and welfare at slaughter.

Improving efficiency and value for money.

- 3.20 In 2006/7, approved meat premises (abattoirs and cutting plants) together spent £23.4m on Official Controls. This was the total amount recovered from the industry in charges. In the same year, Defra and its agencies spent nearly £21m and the FSA £47m. Altogether, the MHS budget for that year was £91.3m. How can we know whether this is value for money?
- 3.21 One of the questions we researched in the Review was what happens in other EU countries. Perhaps unsurprisingly, other countries were reluctant to reveal exactly what the delivery of Official Controls costs them and the extent to which they do or do not subsidise their industry. Denmark and the Netherlands told us that their plants pay full costs. We

know that in the UK, plants paid an average of 41% of the full costs of delivering meat hygiene Official Controls in 2006/7.

- 3.22 As the Official Controls are set down in EU regulations, we asked the European Commission (DG Sanco) and the FVO how much it was costing the 27 Member States to deliver them. The FVO said that they did not deal with the financial aspects of the regulation and DG Sanco said that they did not have the information. Nor could we find any kind of impact assessment that set out, prior to the regulations being approved, what the likely costs were going to be and how they compared to the intended benefits. Agreeing regulations without a good understanding of the likely costs and an assessment of costs against the presumed benefits is not good practice.
- 3.23 We did some limited research with France, Denmark and the Netherlands. We discovered that these three Member States (plus the UK) together spend in excess of £200m per year to deliver Official Controls in approved meat premises. In each case, inspection tasks were being carried out because they were required by the regulation, rather than because they had been independently assessed to be necessary or effective or the best use of resources to reduce risk. Of course, this is not to imply that spending over £200m in this way is somehow wrong. It is just to underline that, without better information on costs, benefits, other ways of managing risks and the results of this spending in terms of safer meat, we simply have no way of knowing.

Moving Forward

- 3.24 It follows from the above that we need much better information to understand the effects of the current system of meat inspection, whether we need more or less of it and whether it provides good value for money. We have proposed some research and consultation activities that we hope the FSA and partners will take forward to fill this information gap¹⁷.
- 3.25 Our wish list for a regulatory system in future might then look like this.
1. It should deliver agreed levels of meat safety, with an accepted means to demonstrate that this is happening (e.g. by cases of meat-related food poisoning remaining within acceptable limits);
 2. It should actively build consumer confidence in the safety of UK meat and increase levels of consumer trust in those who produce it;
 3. It should safeguard animal health and welfare and provide necessary levels of surveillance and communication;

¹⁷ This could build on some excellent research into meat safety and measuring contamination that is currently being funded by the FSA.

4. It should demonstrate that it delivers value for money (e.g. the test could be that the same money spent in other ways could not lead to sustainable improvements in meat safety);
- 3.26 In addition to these important headline outcomes, there are other things that would characterise a well-designed, well-functioning regulatory system. For example, it would enable:
5. Better understanding of and compliance with regulations by Food Business Operators (perhaps measured by a reduction in the number of prosecutions and enforced closures. We should be suspicious of a regulatory system that measures its success or effectiveness by the number of enforcement cases it generates);
 6. Strong financial and other incentives for FBOs to comply, together with effective penalties to deal with persistent offenders that do not;
 7. A stronger, more resilient and more competitive UK meat industry. While regulation may be necessary to secure certain outcomes or to incentivise certain behaviours, it should not be designed, implemented or enforced in ways that place unnecessary or unaffordable economic burdens on plants.
- 3.27 One additional outcome of making changes to achieve the outcomes listed above would be to improve partnership working, trust and understanding between consumers, industry and government. This in itself would help promote future compliance, raise standards and thereby reduce the need for government intervention in future.

Food Business Operator Responsibility

- 3.28 Under EU and UK law, Food Business Operators are fully responsible for complying with the law and for the production of safe food. This apparently uncontroversial statement is sometimes hard to apply to the abattoir sector, given the permanent presence there of government appointed Official Veterinarians and Meat Inspectors. If there is an OV or team of Meat Inspectors in plants all the time, then who is really responsible for what?
- 3.29 In Denmark, the Danish Veterinary and Food Administration is responsible for carrying out Official Controls. Their publicity makes their role and the role of FBOs very clear. It says:
- “The role of the Agency is to encourage the production of safe meat. We cannot guarantee it – that is the role of the Food Business Operator”.
- 3.30 It might be helpful for the FSA and MHS to be equally clear about the division of responsibilities.

Earned Autonomy

- 3.31 Being clear about responsibilities is only the first step. Regulatory systems have to be devised that will incentivise the right kinds of behaviour by rewarding compliance and penalising persistent non-compliance. An important element of this is to adopt a risk and evidence based approach but also to allow for significant levels of earned autonomy.
- 3.32 For example, the FSA is currently re-approving all meat premises. This is being done by the FSA's Veterinary Meat Hygiene Advisors (VMHAs), who visit each of the premises and audit their standards, practices and systems against what the regulations require. Feedback to the FSA and the Review team about this exercise has been positive and there is a broad consensus that it is driving up standards. However, there are ultimately only two possible outcomes – re-approval or withdrawal of the license to operate¹⁸.
- 3.33 Instead, we recommend introducing a more risk-based approach to the delivery of Official Controls, based not on a simple pass or fail system of audit but placing approved plants into one of three categories, based on their progress towards full operator responsibility. The three stages could be:
- **Stage 1** – Plants that are in the early stages of the journey and whose systems, standards and practices need considerable improvement. They are likely to need significant monitoring in the short and medium terms and will therefore require higher levels of intervention from Official Veterinarians and Meat Inspectors to ensure the safety of their meat and the health and welfare of the animals.
 - **Stage 2** – Plants that are more advanced on the journey towards full operator responsibility. The operators will understand HACCP and their responsibilities under the regulations, although they may not yet have complete management systems in place to ensure they can deliver. There may still be some issues with premises and procedures, but overall, they are likely to require less frequent attention from Official Veterinarians and Meat Inspectors.
 - **Stage 3** – Plants where the owners and operators fully understand their responsibilities to produce clean, safe meat and to secure the health and welfare of the animals. They have the systems and people in place to deliver. They will have made the necessary investments to ensure full compliance with regulations and will have ongoing monitoring and training programmes in place. Government and consumers can have confidence in these

¹⁸ Although VMHAs can give conditional approval for a temporary period to allow specified improvements to be made and there is also scope for appeal.

plants and, apart from regular checks to ensure standards are maintained, they are likely to require minimal support from Official Veterinarians and Meat Inspectors.

- 3.34 Under this kind of system, where plants pay the full time costs for OV's and Meat Inspectors, there would be a strong financial incentive for plants to move towards Stage 3 and so to limit their requirements for government intervention. This is already the case for cutting plants, which are audited on a risk-based frequency (in the range 2 to 8 months) depending on their formally assessed level of risk.
- 3.35 This system would be more risk-based, targeted and proportionate. It would allow the FSA/MHS to direct their finite resources towards premises of greatest need and risk. It would provide an incentive for plants to take their responsibilities seriously and benefit from earned autonomy, rather than relying on government inspectors to check their work.
- 3.36 The current EU regulations would limit the extent to which we could adopt this system because they specify what has to be done in all approved meat premises. However, we recommend going ahead with this approach as part of the move towards full cost recovery as a means to bring together operator responsibility, earned autonomy and a risk based approach to reducing costs and improving compliance.
- 3.37 It is interesting to note that in our discussions with the French authorities, they told us that they have designed a similar system based on four categories that they intend to implement later in 2007.

Joining up with other standards

- 3.38 In talking to organisations involved in certification and audit, we have been struck by the range of schemes that exist to promote and/or guarantee the safety and quality of meat and the animals from which it comes. Apart from the work of the Meat Hygiene Service (which, as we know, concentrates on the safety of meat and the health and welfare of animals), we have found:
- Farm assurance schemes that provide reassurance that practices on assured farms meet certain standards. One example is the 'Red Tractor scheme', operated by Assured Food Standards (AFS). The scheme covers six sectors of agricultural production (pigs, cattle and sheep, chickens, dairy, fruit, vegetables and salads) and harvestable crops like cereals, oilseeds and sugar. AFS represents interests from each of the key links in the food chain, including the National Farmers' Union, the Ulster Farmers' Union, the Meat and Livestock Commission, Dairy UK and the British Retail Consortium. Observers include Defra and the Food and Drink Federation.

- British Retail Consortium Food Technical Standard. In 1998 the British Retail Consortium (BRC), responding to industry needs, developed and introduced the BRC Food Technical Standard to be used to evaluate manufacturers of retailers' own brand food products. Under EU food law, retailers and brand owners have a legal responsibility for their brands. It is regarded as the benchmark for best practice in the food industry and its use outside the UK has seen it evolve into a Global Standard, not just to assess retailer suppliers but also as a framework on which many companies have based their supplier assessment programmes and manufacture of some branded products.
 - Certain major supermarkets also have their own quality assurance schemes, under which their inspectors visit their suppliers regularly to check standards are being met. For suppliers that depend on sales through these major retailers, there is obviously a strong incentive to maintain high standards – but perhaps an equally strong incentive to cut costs?
 - Meat and Livestock Commission. The affiliated bodies of the Meat and Livestock Commission: Quality Meat Scotland, Hybu Cig Cymru (Meat Promotion Wales), English Beef and Lamb Executive (EBLEX) and British Pig Executive (BPEX) are all developing a range of approaches to quality assure their products in order to differentiate in the increasingly competitive international marketplace. In Scotland and Wales, the development of these quality assurance organisations is seen as an important ingredient in the overall agricultural strategy.
- 3.39 Another interesting finding was the degree of overlap between these many schemes and standards. For example, one major certification and audit body told us that they regularly visit 85% to 90% of approved meat plants in the UK to carry out inspections and audits on behalf of a number of clients, including major supermarkets. They also said that there was at least 80% overlap between what they look for and what the MHS is routinely checking. One large beef plant gave us a list of 18 separate audits that they have each year and said that the standards required by the MHS were far from being the most rigorous. One plant we visited stationed its own staff at the end of the slaughter line to check that the MHS inspectors had not missed anything!
- 3.40 Our conclusion is that, as far as earned autonomy and risk is concerned, there should be opportunities within the official meat inspection system to recognise those plants that have achieved external accreditation or certification to accepted standards and that they should require less and less onerous intervention by the MHS. One major supermarket was very clear when they told us that they do not and would not want to rely on the MHS to guarantee product safety or compliance with regulations. This was not necessarily a comment about the quality of the MHS, but

an expression that this business wants to be responsible for what they produce and sell without relying on government. Instead, they employ their own inspectors and auditors and contract independent organisations for (often unannounced) inspections and audits which, they believe, are more demanding and require higher standards than MHS. For a plant that depends for its survival on sales to a supermarket like this, there can be few more powerful incentives to achieve and maintain high standards of safety and compliance than the real threat of losing the contract.

Conclusion

- 3.41 This chapter has described a vision for the future regulation of meat hygiene based around:
1. Proportionate and risk-based regulation
 2. Food Business Operator responsibility
 3. Scope for earned autonomy
 4. Incentives for compliance and effective penalties for non-compliance
 5. Mutual recognition of standards and joining up audit schemes.
- 3.42 Some of this will require changes to EU regulations. Some will require changes to the way FSA and MHS understand their roles and design their interventions. It requires FBOs to understand their responsibilities, to co-operate with regulators but to have real, financial incentives to comply. It also implies that industry will work closely with the FSA to identify the small number of persistently non-compliant or criminal operators who threaten not only the safety of meat but the reputation of UK meat producers and agree ways to help them improve or close down.
- 3.43 We therefore recommend taking this work as a starting point to develop and trial with industry and other stakeholders a range of ideas that would help deliver a more risk and evidence based approach.

CHAPTER 4:

STAKEHOLDER ENGAGEMENT AND COMMUNICATION

4.1 Since starting the Review in October 2006, we have carried out a comprehensive programme of stakeholder engagement and consultation. Many questions have been raised, considered, discussed and occasionally disputed. This chapter attempts to summarise the wide range of views, comments, ideas, proposals and responses we received. It begins by describing the consultation process and then outlines the views of the main stakeholder groups and describes their responses to the main issues that we discussed with them. There follows an expanded section reporting the views of Meat Inspectors, an important insight into how things are seen from the frontline. We were pleased that so many meat inspectors responded to our questionnaire survey¹⁹. Finally, we summarise additional points of interest that were raised with us, before setting out the key conclusions.

We have tried to illustrate the range of views by including some quotations from the responses we received. These are quoted verbatim and we have not attempted to verify or correct the information included (for example, MHS records show 28 rather than 34 Area Managers and 150 York staff rather than 400). We think it is important to reflect on the perceptions, hopes, fears and ideas from those intimately affected by the how we organise the delivery of Official Controls, even where there may be factual inaccuracies of where it makes uncomfortable reading.

The Process

4.2 We implemented a four part consultation plan:

1) Electronic

- From the start of Phase 1 of the Review through to the end of May 2007, there was an open invitation on the FSA website for stakeholders and interested parties to email the Programme Manager with their views.
- An interactive blog was set up through the FSA website and comments were accepted from mid-March to the end of May 2007.

2) Face-to-face

• *Roundtable Discussions*

Roundtable discussions were held with the following groups:

- i) Industry
- ii) Assurance Bodies
- iii) Meat Inspectors

¹⁹ Through the good offices of the Association of Meat Inspectors, to whom we are most grateful.

- iv) Contractors
- v) Consumer Representative Groups

Although we suggested questions to guide these discussions, the roundtables were a useful opportunity for key interest groups to raise the issues of greatest importance to them and to discuss concerns in a frank but open way.

- **Consumer Focus Groups**

We engaged an independent research organisation to organise six focus groups with consumers across England, Scotland and Wales. These groups were chosen to represent the complete demographic spectrum.

- **Workstream Consultation**

Each workstream held consultative meetings with key stakeholders as well as engaging in regular communication via telephone and email.

- **UNISON**

There were several meetings with UNISON.

3) Plant Visits

The Programme Manager and Programme Coordinator undertook a programme of visits to a range of plants to gather input from the front line. A list of the plants visited is attached Annex A.

4) Written

A feedback pack containing a covering letter, a summary of the delivery options being explored in Phase 2 and a small number of standard questions was sent to a wide range of organisations. The questionnaire was also downloadable from the FSA website, with the addition of 3 extra questions specifically for consumers. In total we received 71 replies. This extended version is attached at Annex B.

- 4.3 A wide range of individuals and organisations provided input into the Review through one or more of the above channels. A full list of the organisations that contributed is attached at Annex C.

Summaries of Views

4.4 Meat Inspectors

- Feel that the MHS is overly bureaucratic, has too many non-operational staff and is badly managed;
- Believe meat inspection should remain in the public sector and prefer the Transformed MHS model to the Delivery Partner model;
- Feel that the professionalism of the role of Meat Inspector has been eroded and would like to see the role developed;

- Feel that for FBOs, maintaining and increasing production will always take precedence over FBO responsibility for hygiene and animal welfare.

4.5 **Industry**

- Accept that the charges of inspection will increase, however in return expect a more efficient and cost-effective service with flexible, local delivery;
- Are more concerned that there is a reduction in the cost of delivery than with whether delivery is through the Transformed MHS or a Delivery Partner; however, they lack confidence that the MHS can transform itself;
- Would like a more risk-based approach to audit and inspection, although recognise the limitations imposed by the regulations;
- Believe enforcement needs to be appropriate, proportionate and effective and are keen to see non-compliant operators removed from the industry.

4.6 **Contractors**

- Believe the MHS cannot transform (because of past history and organisational culture) and support the Delivery Partner model;
- Report that they experience poor quality commissioning and contract management by the MHS and that their expertise is disregarded;
- Believe that FBO responsibility could be increased through improved risk assessment.

4.7 **Consumers**

- Favour the Transformed MHS model, expressing a lack of confidence in private sector delivery of public services;
- Believe that delivery of Official Controls should be subsidised by the taxpayer;
- Believe that closer working between MHS and Animal Health would be a positive step;
- Tend to trust major retailers to supply safe meat and do not give much consideration to how the meat industry is regulated – none of the focus groups had previously heard of the MHS;
- Have a high awareness of and express confidence in the FSA.

4.8 **UNISON**

- Support the Transformed MHS model and express strong opposition to the Delivery Partner model;

- Argue that HACCP does not work in abattoirs and that current standards of hygiene are too low. Wants the FSA to require higher standards.

Summary of the main issues raised during the consultation process

4.9 The main issues discussed during the consultation process were:

1. Regulation of Meat Production

Questions:

4.10 What are the experiences of the regulators and those being regulated? What are the expectations of consumers? What seems to work and what works less well? Are standards improving? Why is meat regulated in a different way to all other foods? Could the present system of meat regulation pass the five tests of good regulation?

Summary of responses:

4.11 The question of whether the current level of regulation is justified provoked a mixed response. Our group of Meat Inspectors and UNISON argued strongly that the production of meat is a high-risk process and therefore heavy regulation is necessary. Consumer groups agreed that the process is high-risk, however they felt that there was scope for a more risk-based approach when implementing the regulations. Consumers themselves had little knowledge of the level of regulation of the production of meat and were generally surprised to learn that every carcass is inspected. Other groups such as trade representative bodies, Food Business Operators and farmers' unions said that the current level of regulation is disproportionate to the risks. There is a strong belief that the Food Standards Agency should lobby more strongly in Europe for a more risk-based approach to legislation (or at least implement the current regulations in a more proportionate and risk-based way).

<p>“We need.....a legislative and regulatory framework that is more appropriate to modern industry practices and real risk”</p>	<p><i>Trade Representative Body</i></p>
<p>“...legislation might benefit from a scientific ‘MOT’”</p>	<p><i>Devolved Administration Department</i></p>
<p>“The cost... is disproportionate to the benefit achieved” “The present rigid system of gold plating, box ticking and inflexibility is disastrous”</p>	<p><i>Industry</i></p>

2. Food Business Operator Responsibility

Questions:

- 4.12 What are FBOs really responsible for and how well are they doing? Who should and should not be trusted and why? How can FBO responsibility work when there are government inspectors permanently stationed in the plants? Should regulation be reduced where FBOs can demonstrate that they are taking responsibility?

Summary of responses:

- 4.13 Trust and dependency emerged as the key considerations relevant to FBO responsibility.

(a) *Trust*

- 4.14 Meat Inspectors and UNISON tend most strongly to express distrust of Food Business Operators and are critical of proposals to increase FBO responsibility. They believe that the FBO focus on profit will always take precedence over any concern for public health and that this, in a fundamental way, means that FBOs cannot and should not be trusted to comply with regulations. They say that their experience demonstrates that, while everything may look good on the surface and especially when auditors visit plants, “as soon as the back is turned, they are up to no good.” On the whole, consumers are also opposed to full industry self-regulation and believe that there should continue to be external, independent meat inspection. Some consumers say that this should follow the current model while others are ready to accept that appropriately trained plant staff should carry out on line meat inspection tasks, although closely monitored by an external OV and subject to robust, unannounced audit by the FSA.
- 4.15 However, other groups we spoke to, such as trade representative bodies, industry, retailers and contractors, are in favour of encouraging greater FBO responsibility in practice, especially if this means that the finite inspection resources of the MHS/FSA could be better focused on those plants where risks were higher. On this theme, most of those we spoke to believe that a majority of FBOs are committed to producing safe meat and that the risks to public health and reputation arise from a few ‘rogue traders’ who tarnish the image of the industry as a whole and who are largely responsible for a reluctance to simplify and reduce regulation. Interestingly, most people agreed that these high risk individuals and businesses could easily be identified and were keen that the FSA should take stronger action against them, including closing them down if necessary.

“There is a vast majority of legitimate businesses in this sector yet there is still an element of rogues that will do whatever they can to make money disregarding the fact that they are producing food”	<i>Local Authority</i>
“Unscrupulous dealers and traders have damaged the reputation of the industry”	<i>Contractor</i>

(b) *Dependency*

- 4.16 It is widely believed that the current system of meat inspection, especially the permanent presence of government vets and inspectors in plants, has fostered a dependency culture in the sector. Rather than taking ownership and full responsibility for the safety and quality of what they produce, many FBOs will tend to rely on the regulators for assistance in interpreting, understanding and complying with Official Controls. Some people also feel that, as a result, many FBOs currently do not have the technical knowledge or even management skills required for them really to take over responsibility and to drive improvements in standards. Contractors, industry, professional bodies, assurance bodies, Meat Inspectors and farmers' unions all highlighted this as a significant barrier to progress. There was also a suggestion that any new or evolved system for delivering Official Controls would need to find ways of reducing or removing this dependency culture (which is deep seated) before significant change and greater FBO responsibility could be achieved.
- 4.17 A consumer group, however, felt that the permanent presence of government vets and inspectors in plants was a necessary safeguard for consumers and did not imply that the FBO had any less responsibility for the production of safe food in full compliance with the regulations.

“The industry itself has become institutionalised by a culture of reliance on all powerful veterinary officials... Sadly many in the industry do not wish to accept responsibility because of lack of basic product knowledge together with misguided fear of officialdom and publicity”	<i>Industry</i>
“...unless we do start to withdraw some of the ‘troops’, industry will continue to rely on regulators maintaining order and control within their premises – the relationship has become one of ‘mutually assured destruction’ with no possible winners”	<i>Contractor</i>
“Current MHS policy does not reward operators for taking ownership... The industry does not feel empowered to develop its own food safety policies”	<i>Professional Body</i>

3. Subsidy

Questions:

- 4.18 How much does meat regulation cost? Are costs rising or falling and are consumers and taxpayers getting value for money? Should FBOs pay for all inspection costs or should there continue to be a subsidy? Should poor or non-compliant plants lose their subsidy? How can costs to plants rise without jeopardising small, rural slaughterhouses?

Summary of responses:

4.19 Despite the public statements by the FSA about the need to move towards full cost recovery and reducing the subsidy currently paid for meat inspection and other Official Controls, we found a strong and widespread support for continuing the subsidy. The key supporting arguments were:

- Meat inspection is a public health protection service and should therefore be funded by the taxpayer. It is no different from the inspection of product factories, hotels, supermarkets and kebab shops, which is provided by Local Authority Environmental Health Officers and paid for out of general taxation.
- When asked a direct question, all the consumers we spoke to thought that the current subsidy cost (around £30m per year) was well worth paying. They noted that it averaged out at less than 50p per person per year.
- Without a subsidy of some sort, small premises, especially those in isolated, rural areas, may not be able to continue operating. They could not afford full cost recovery but are essential to the local rural economy, farmers' markets, farm shops and lower food miles.
- The subsidy is more about inefficiencies in the way the MHS currently delivers the controls rather than the real costs of delivery. Industry should not have to cover the cost of this inefficiency.

4.20 It is worth noting that, in our discussions with the current veterinary contractors, they said that they believed that MHI presence in plants could be reduced by about a third with no detriment to the standards being achieved.

[Phasing out of subsidy should be dependent upon] having an efficient and effective system in place that provided value for money"	<i>Devolved Administration Department</i>
"Recently in our canteen, during normal working hours were sat: 2 OVs, 2 MHS Officers and 3 MHIs all at the same time... if the FBO is to pick up the tab for Official Control staffing, we will not be paying for this outrageous waste of man-power and man-hours"	<i>Large FBO</i>
"FBOs want Officials to work the same operating hours as plant staff, which will reduce the need for extra staff coverage all day simply to cover the break rotation system that the MHS has developed over the years, should FBOs be paying the bill"	<i>Large FBO</i>
"If businesses are to pay for services received, only the appropriate level of controls should be applied"	<i>Industry</i>

“Industry should pay for ACTUAL inspection costs. Not all of the add-ons for overstaffing, poor HR policy, ineffective management, poor financial controls and an IT department out of all proportion to the size of the sector”	<i>Professional Body</i>
“The bureaucracy of the MHS – i.e. the amount of unproductive office based staff and departments - needs addressed. Paying for this puts an unfair burden on meat companies”	<i>Meat Inspector</i>
“A contribution from the public purse helps to secure independent control and demonstrates the importance placed on animal welfare and public health”	<i>Consumer Organisation</i>
“The consumer demands safe food. Therefore whatever mechanism that is pursued must ensure that the safest food possible is produced therefore tax-payer money is as well spent in this area as in any other”	<i>Professional Body</i>
“The whole agricultural sector in the EU is subsidised, if it were not it could not survive in the world economy... we probably need some sort of subsidy of meat inspection especially of smaller units”	<i>Union</i>

4. Type of Inspection Body

Questions:

- 4.21 Does meat inspection need to remain a public sector monopoly? Are there better ways of organising the work of Official Vets and Meat Inspectors? Are there other organisations that could deliver an equally good service at lower cost? Should Vets and Meat Inspectors be employed by the same organisation? Do we want one inspection body or several? Why do so many OV's and Meat Inspectors say they are unhappy with their working lives?

Summary of responses:

- 4.22 There is a strong preference among Meat Inspectors and consumers to continue the delivery of Official Controls by a government agency rather than by a specialist, independent organisation. The most frequent argument from Meat Inspectors against private sector delivery is a belief that standards will fall as a consequence of the pursuit of profit.

“Privatisation would.... end up as a cost driven cowboys charter”	<i>Meat Inspectors</i>
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<p>“Private organisations may be more efficient because they are profit driven though this may lead to a focus too much on budget rather than quality of service”</p>	
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- 4.23 They reason that private sector delivery bodies will cut costs by employing cheap, inexperienced labour and that this will inevitably result in lower standards. UNISON argued that this was already evident in those plants where contract Meat Inspectors (often qualified vets from other European Member States) were being used rather than experienced UK trained Meat Hygiene Inspectors.
- 4.24 Consumers were more concerned by possible uncertainties about who the private companies would be, who would control them and how standards and consistency would be assured. Most were also unaware that the MHS currently makes extensive use of privately contracted Official Veterinarians. However, consumers too tended to worry about the possibility that commercial interests would impact negatively on meat safety.
- 4.25 Consumers and consumer representative groups said that any system in which private sector Control Bodies were to have direct commercial relationships with FBOs would have little credibility. This view is shared by the current contractors, who are sensitive to any perception that their independence might be compromised and who said that they would be reluctant to enter direct financial relationships with FBOs for the delivery of Official Controls.
- 4.26 While other groups shared a general concern that a focus on profit should not be allowed to lead to lower standards, many could also see significant advantages in Official Controls being delivered by accredited private sector organisations. For example, trade representative bodies, industry, farmers’ unions and responses from departments in the Devolved Administrations said that private sector involvement could bring about flexibility and cost savings, especially were there to be some kind of competitive market for delivery of Official Controls.

<p>“Competitive tendering may provide opportunities for overall reduction in the cost of service provision”</p>	<p><i>Trade Representative Body</i></p>
<p>“If delivery of controls were opened up to the private sector under a tender exercise, the same level of delivery could be achieved more cost effectively”</p>	<p><i>Industry</i></p>
<p>“Competition could reduce costs... More flexible – easier to reflect individual risk of plant”</p>	<p><i>Union</i></p>
<p>“Increased competition likely to result in a reduced cost for plants. Greater flexibility”</p>	<p><i>Devolved Administration Department</i></p>

- 4.27 Consumer views were split on this. Some felt that, so long as the Food Standards Agency retained overall control of standards and

performance, the system would work well and be more efficient than at present. Many others, however, expressed concern that a competitive market could create difficulties in ensuring a single standard of meat hygiene and run the risk that costs would be driven down below the levels required to provide the necessary assurance as to the safety of meat entering the food chain.

5. Performance Audit & Inspection

Questions:

- 4.28 Who checks the work of OVs and Meat Inspectors? What are the links between official meat inspection and the challenging audit and certification required by big supermarkets? Should responsibility for audit be separate from day to day delivery? How can the FSA satisfy the FVO challenge that we need a stronger grip on what goes on day to day in plants? Are too few plants closed down for non-compliance? Too many?

Summary of responses:

(a) Improving the Current System

- 4.29 Both Meat Inspectors and industry are critical of the way in which audits are currently conducted. They believe that, to be effective, audits should focus much less on the paperwork in place and rather more on what actually happens in plants day to day.

"Auditing is a complete waste of time . . . the paperwork in meat plants is kept up to date but does not reflect the day to day running of the plant"	<i>Meat Inspector</i>
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- 4.30 There was near universal support, including from FBOs and their representative organisations, for the FSA to operate a programme of unannounced audits to overcome what is widely referred to as the "Hollywood effect".

"The FSA should audit by turning up unannounced rather than planned visits – it becomes a show like Broadway"	<i>Meat Inspector</i>
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(b) A Risk-Based Approach?

- 4.31 Meat Inspectors and UNISON are generally opposed to risk-based audit and inspection, particularly where it results in any reduction in audit or inspection activity from current or previous levels. For example, they were critical of the move from permanent presence to risk-based audits of cutting plants, saying that it is impossible to guarantee what happens when the inspectors are not present and suggesting that many corners tend to be cut between scheduled audits.

"No 2 days are the same in any abattoir. Fully staffed with a low kill and everything is fine. The next day	<i>Meat Inspectors</i>
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<p>experienced slaughtermen off sick and busier, every carcass can be contaminated...it changes from day to day and it is very hard to implement a risk based system that will actually work”</p> <p>“Risk-based...is little more than an acronym for ‘cheap to industry’. A risk-based system would compromise consumer protection”</p>	
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4.32 However, there was strong support for a more risk-based approach to inspection and audit among the majority of other stakeholders, including departments in the Devolved Administrations, industry, contractors, trade representative, professional and assurance bodies, and farmers’ unions.

4.33 We heard several ideas for introducing a more risk-based approach to audit, including reducing audit frequency for FBOs who were accredited by other (legitimate) assurance schemes, such as Red Tractor or the British Retail Consortium standards. Others proposed a system of earned autonomy, already part of several assurance schemes, whereby plants where there is ongoing confidence in management, a history of compliance and a tradition of good performance are visited less often and get a less detailed audit. We heard that parallel certification and audit visits (such as those conducted by EFSIS) already happen in some 85% to 90% of approved meat plants on behalf of a variety of different assurance schemes and customers. There was considerable support for the idea of joining up these schemes more with the FSA/MHS audit, starting with an element of “mutual recognition” to reduce costs and overlap.

4.34 Nearly all stakeholders wanted the FSA to carry out the audit function in approved plants, often stating that they had higher levels of trust in the FSA than in others.

<p>“The FSA should use the competent, trained staff they already have in the meat industry to continue auditing this service”</p>	<p><i>Meat Inspector</i></p>
<p>“The FSA should have a unit which audits that delivery”</p>	<p><i>Union</i></p>

4.35 However, there was also a suggestion that routine audit work could be outsourced to a specialised private sector organisation.

6. Flexibility in Delivery

Questions:

4.36 Could there be different solutions for different situations or different parts of the UK? What is the right balance between risk-based flexibility and achieving consistency across the UK? How can we encourage OV’s and Meat Inspectors to use their professional judgement rather than simply follow instructions? Should there be more Poultry Inspection Assistants?

Summary of responses:

(Note: Northern Ireland was outside the Terms of Reference of the Review)

- 4.37 There was unanimous agreement that the standard of hygiene must be the same across GB and widespread support for a single delivery system to operate GB-wide. However, particularly since the elections in May 2007, it has been suggested that any new system for delivering Official Controls should include the possibility that England, Scotland and Wales may prefer to adopt different models to reflect their particular needs and circumstances.
- 4.38 Several stakeholders, including departments in the Devolved Administrations, contractors and industry, said that it would be useful to have the flexibility to provide a more affordable service to small, remote premises. Consumers generally agreed with this and were in favour of supporting rural enterprise but not if this meant 'watering down' the regulations for such premises.

7. Relationship between MHS and FBOs

Questions:

- 4.39 What kind of relationships do FBOs have with the MHS? What are the sources of conflict? How could they be improved?

Summary of responses:

- 4.40 It has been rare to find anyone who does not believe that the relationship between FBOs and the MHS should be improved as a priority. Contractors, Meat Inspectors, FBOs and industry representatives have all identified a need to resolve conflict in plants and to build better relationships between FBOs and regulators. There is a real willingness to move forward in partnership and we believe that this is critical to securing a real and sustainable behavioural change and improvement in standards among FBOs.

"The current approach to meat hygiene controls is fundamentally negative in process and outcome" "The most common complaint received from industry is that 'the OV keeps winding up my staff' which results in conflict" "[A] tailored and facilitatory approach to compliance management whereby the regulator and industry work in partnership to mutually agreed objectives is the only way in which the command and control approach to Official Controls can be removed"	<i>Contractors</i>
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- 4.41 Contractors, trade representative bodies and professional bodies suggest this could be achieved by explicitly moving away from a "one size fits all" approach and adopting a flexible approach to the delivery of Official Controls, matching the activities and behaviour of the regulator to the characteristics and needs of each individual FBO. This should be

possible at least in the slaughterhouse sector where there is a manageable number of plants.

“...delivery which focuses on the needs and circumstances of the individual FBO and which seeks to ‘work with’ the FBO”	<i>Trade Representative Body</i>
“...for too many years we have tried to force the industry to wear the ‘Burton’s suit’ of inspection standards rather than tailoring a garment to meet the needs of each individual operation”	<i>Contractor</i>
“Each and every fresh meat premises within the UK should be treated individually... By the careful and tailored approach to delivery and application, real efficiencies can be achieved whilst at the same time as enhancing industry ‘ownership’ and local partnerships developing”	<i>Professional Body</i>

4.42 This should not be misunderstood as proposing some kind of “free for all” with every plant meeting different standards. Rather, it argues for every plant meeting the same standard of output – clean, safe meat from healthy and well-cared for animals – but encouraging them to achieve that standard in whichever way best suits their particular operating environment. It is about changing the focus from controlling the process to controlling the outcome and working with FBOs rather than trying to catch them out.

4.43 The Meat Inspectors also recognise that relationships need to improve and are critical of the current approach to enforcement. They believe that many problems should be solved through common sense and dialogue (“as they used to be”) rather than through the more formal route of issuing enforcement notices and referring difficulties “up the line”. They would like to be allowed once again to advise FBOs on how to solve problems, rather than being required, as they now see it, to stand aside and simply accept or reject carcasses. Meat Inspectors at least do not see any conflict between providing helpful advice where it is useful and maintaining independent oversight where it is necessary.

“From my experience I have found that talking down to people and laying down the law only succeeds in getting people’s backs up, which is the situation at present”	<i>Meat Inspectors</i>
“Auditing shouldn’t be seen as a ‘catching you out’ tool and should be more supportive and helpful”	
“The MHS is confused about whether it is a policeman or an advisor”	<i>Professional Body</i>

4.44 Industry is also critical of the current approach to enforcement, proposing that it should be appropriate, proportionate and effective.

Meat Inspectors: Key Issues

1) Cost of Non-Operational Staff in the MHS

4.45 We have found a widespread perception that the cost of what are seen as “non-operational staff” in the MHS is unnecessarily high and has driven much of the increase in MHS costs. These “non-operational” staff tend to be defined in different ways according to who is defining them, but they are generally taken to include anyone (except the speaker concerned) in the MHS who is not engaged in front-line meat inspection. This is a view felt particularly strongly by Meat Inspectors and by a majority of FBOs.

<p>“The real question that should be asked is what is the true cost of meat inspection – we have hoards of Civil Servants in the MHS who never actually contribute anything to the organisation, such as 38 in the HR department at York, 5 Regional Directors (who never make a decision without consulting York), Regional Offices, 34 Area Managers (some of whom only have one plant to manage), approximately 91 Senior Meat Inspectors, whose only functions are to sign off timesheets and send staff all over the place.....”</p>	<i>Meat Inspectors</i>
<p>“In any system it is the people who carry out the function who should make up the majority of the cost; in case of meat inspection at present those costs are being lost under supervision and administration costs”</p>	
<p>“[The Review should] acknowledge that frontline staff are the most valuable tools in meat hygiene safety”</p>	
<p>“...a bureaucracy that is over-manned and over the top with six offices repeating the same activities. None of which are actually inspecting meat”</p>	<i>Meat Inspectors</i>
<p>“Top heavy with highly paid officialdom, who cannot even sharpen a knife”</p>	
<p>“MHS could be streamlined more and very easily. How many tiers of management do you need to provide an effective inspection regime covering animal welfare, food safety and inspection?”</p>	
<p>“...answers need to be found on why nearly 50% of MHS employees are not inspection team members”</p>	
<p>“Why are there 5 regions each with its own set of managers and admin staff when in this electronic age 1 could cover all the UK?”</p>	
<p>“...there are armies of officials within the MHS that do not make any positive contribution to the safe production of meat”</p>	
<p>“With in excess of 400 staff in York alone no business can expect to supply a cost effective service. If the</p>	

<p>management is slimmed down and restructured a great portion of the £30 million could be saved”</p> <p>“... the present fiasco that is top heavily managed, fragmented, disorganised and run from a far distant city”</p>	
<p>“Someone within the MHS should take responsibility to streamline this organisation, cut the deadwood and look at how money can be saved by cutting the policies and waste which would never be tolerated in a private industry, rather than by cutting the frontline staff who are actually doing the tasks required”</p>	<i>Professional Body</i>

2) Unnecessary Paperwork

- 4.46 There is an equally strong belief among Meat Inspectors that the MHS could be made more efficient by cutting down on the amount of paperwork distributed and on the number of forms to be filled in. The Review has not had an opportunity formally to assess the paperwork burden (but would recommend that this is done moving forward). However, in every plant visited by the team, we have seen OVs and Meat Inspectors engaged in multiple form filling and nearly all of them have raised this as an issue that should urgently be addressed.

<p>“Why, when MHS have spent millions on the computers, do we Inspectors still receive mail all the time?”</p> <p>“Too much time is wasted on paperwork and sending unnecessary rubbish to each employee through the post”</p> <p>“The MHS need to rid themselves of all the bureaucrats at York and keep only the essentials and cut down on some of the ridiculous paperwork. This will not only save money but will give the inspector more time to do his job where it matters, in the plant, not filling in unnecessary forms”</p>	<i>Meat Inspectors</i>
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3) Lack of Support for Frontline Staff

- 4.47 Meat Inspectors say that they do not valued by MHS management and are not confident of their support if they decide to challenge something that they are concerned about in a plant. UNISON made the same point, arguing that Meat Inspectors did not see FBOs as “customers” and did not see themselves as “providing a service to plants.” Rather, they saw themselves as providing a professional public health protection service, but felt that their experience and skills were undervalued and not recognised by MHS managers.

<p>“[MHS] has over its development become a self-promoting organisation that has a wealth of talent and expertise within its workforce that has been</p>	<i>Meat Inspectors</i>
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<p>rejected or ignored”</p> <p>“The MHS is badly managed, a huge costs to the taxpayer, the worst performing civil service organisation, lowest staff morale, highest sickness absence etc... but the management are never held accountable, it always seems to be the staff on the ground floor’s fault”</p> <p>“We have some talented people on the shop floor who understand the industry and the people at the top who have little or no understanding, are trying to cut and bully the ground troops”</p> <p>“There are moves to lower the professional standards of those carrying out the front line function”</p>	
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- 4.48 It will be clear from the above that Meat Inspectors believe that their professionalism has been eroded. They would like this to be reversed and are strongly in favour of Continuing Professional Development for Meat Technicians and Meat Inspectors. The Review team has identified a lack of career development opportunities for Meat Technicians and Meat Hygiene Inspectors as one of the issues that should be resolved moving forward.
- 4.49 The Meat Inspectors who attended our roundtable agreed that they would be better able to monitor standards in plants and so provide greater public protection were they allowed to spend less time standing on slaughter lines inspecting individual carcasses, a role they described as being like “gland slashers” or “gland gladiators”. They believed they would be more useful moving round the plant, supervising and monitoring activities and standards and taking more of an overview of what FBOs are doing. Although we are aware that the current EU legislation is a limiting factor, we believe that it might make sense in some plants for trained plant staff to carry out some of the routine on-line inspection tasks (supervised by a qualified Meat Inspector), thereby giving the Meat Inspectors more opportunity to assist the OV with monitoring overall standards and ensuring the safety of what is being produced.
- 4.50 Some Meat Inspectors also said that, in future, they would like an opportunity to train further so that they could carry out some of the tasks currently reserved for OVs. Again, this is something we would strongly support, subject to the FSA being successful in negotiating the necessary flexibility in the EU Regulation.

<p>“More emphasis on training and development instead of IT and bureaucracy”</p> <p>“Treat Meat Inspectors as the professionals they are”</p> <p>“In order to attract the right people the job needs to</p>	<i>Meat Inspectors</i>
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be made attractive”	
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- 4.51 In our discussions with contractors and independent assurance and certification organisations, they told us that the career progression and opportunities for Meat Inspectors would be better under a Delivery Partner model than under the MHS. This is because these organisations would most probably be larger and involved in providing a wider range of inspection, quality assurance, certification and audit activities to a more varied group of customers. The Transformed MHS model has also recognised this issue and suggested that they too will expand their customer base moving forward.

Other Points of Interest

- 4.52 Consumers say that, on the whole, they tend to trust major retailers, believing that they will not want to jeopardise their reputation by selling unsafe meat. Consequently, they are generally reassured by labels from major retailers and believe that major retailers will only buy from suppliers that have been thoroughly checked and can therefore be trusted. Conversely, Meat Inspectors were more sceptical as to the extent to which audit by major retailers could be relied upon to guarantee high standards.
- 4.53 Meat Inspectors, UNISON and consumer groups told us that they were in favour of the Clean Livestock Policy and that it should be strengthened. The Meat Inspectors said that, since they had been told not to enforce the policy and responsibility had passed to FBOs, standards had fallen.
- 4.54 While they may have issues with certain aspects of Official Controls and how they are carried out, Meat Inspectors and consumers expressed a high level of confidence in the quality and safety of British meat. This was echoed by almost all those we spoke to. Most people felt that there was probably more danger from meat imported from countries where standards were lower than from UK meat and wanted reassurance on the way the UK implements border controls.
- 4.55 Both Meat Inspectors and FBOs identified the generally poor relationship between OVs and MHIs as a key difficulty in the current system. The Review team has found that, while there are examples where this relationship works well, they are the exception. Many Meat Inspectors say that OVs are unnecessary and those they have worked with lack abattoir experience and meat inspection skills. Many OVs find the Meat Inspectors resentful of their presence, resistant to their authority and difficult to manage. This is obviously not helped where the OV and the Meat Inspectors are employed by different organisations and part of separate line management systems. One of the key recommendations from this review is that the OVs and Meat Inspectors should operate as integrated teams within a single line management system. This is likely to remain a challenge for the MHS so long as it contracts most of its OVs and directly employs most of its Meat Inspectors.

- 4.56 Contractors and industry say that they are not confident that the MHS is capable of genuine transformation without significant external pressure and challenge. This view is fairly widely shared by those with experience of dealing with the MHS. While most would readily admit that there are many dedicated, skilled and good people in the MHS, there is a widespread perception that the systems of management and organisation need urgent and radical overhaul. People express varying levels of confidence in the likelihood of this happening. UNISON, for example, has made a public declaration in support of the Transformed MHS and is negotiating a joint agreement with MHS managers to drive forward a transformation programme. Others believe that organisations cannot easily transform themselves and that significant and sustained external pressure will be required from the FSA, customers and from an element of ongoing competition provided by opening the delivery of Official Controls to other organisations, such as the Delivery Partners summarised in Chapter 6 of this report.
- 4.57 There was a general lack of support for handing back delivery entirely to local authorities (although this was not being proposed). Some stakeholders acknowledged that involving local authorities could provide benefit in terms of flexibilities in delivery to small, rural premises.

Conclusions on Key Issues

1. Priorities for Change

- The cost of delivering Official Controls must be reduced;
- Service delivery must be more streamlined, flexible and efficient;
- The current level of bureaucracy must be significantly reduced;
- Effort should be made to improve relationships between the regulators and the regulated.

2. Transformed MHS

- In principle there is no strong opposition to a Transformed MHS model provided that it quickly delivers on the key outcomes, however some stakeholders lack confidence in the ability of the MHS to transform.

3. Delivery Partner

- Many stakeholders felt that a Delivery Partner would be more likely to offer a cost-effective and flexible service. However, some felt that the risks might be more difficult to manage and that delivery by a private sector body could lead to a drop in standards unless the contract was expertly managed by the FSA.

CHAPTER 5:

THE TRANSFORMED MEAT HYGIENE SERVICE OPTION

5.1 Throughput Phase 2 of the Review, staff in the Meat Hygiene Service (MHS), under the leadership of the new Chief Executive, Steve McGrath, have been working on a proposal called the “Transformed Meat Hygiene Service” (TMHS). This proposal to the FSA sets out how the MHS intends to change its operations and reduce its costs, without undermining meat safety or consumer confidence, in response to the challenges set by this Review. The MHS has made a commitment to deliver the proposed improvements whatever the FSA Board may decide in July about the future delivery of Official Controls. The material prepared by the MHS and submitted to the Review is summarised in this chapter. A complete set of materials, including the full Business Case, is available to FSA Board members on request.

TMHS Headlines

5.2 **Based on delivering the current levels of Official Controls, the Transformed MHS proposes to deliver the following economic benefits:**

1. Against a baseline budget of £91.3m, to reduce costs by £9.9m in 2009/10, £12.6m in 2010/11 and £15.2m in 2012/13 and to achieve a net present value saving of £103m in the ten years to 2017/18.
2. To reduce the cost per livestock unit from an average of £14.11 in 2006/07 to an average of £13.02 over the Comprehensive Spending Review (CSR) period (2008/9 to 2010/11) and to an average of £11.92 over the following CSR period (2011/12 to 2013/14).
3. To reduce average full time equivalent staff numbers from 2,024 in 2006/07 to 1,714 in 2010/11, a reduction of 310 or 15%.
4. To recover the proposed initial net investment and severance costs of £14.9m (payable over the period 2007/8 to 2008/9) within 27 months of the investment year, that is during the financial year 2010/11.

5.3 In the TMHS proposal, savings are planned to be achieved by:

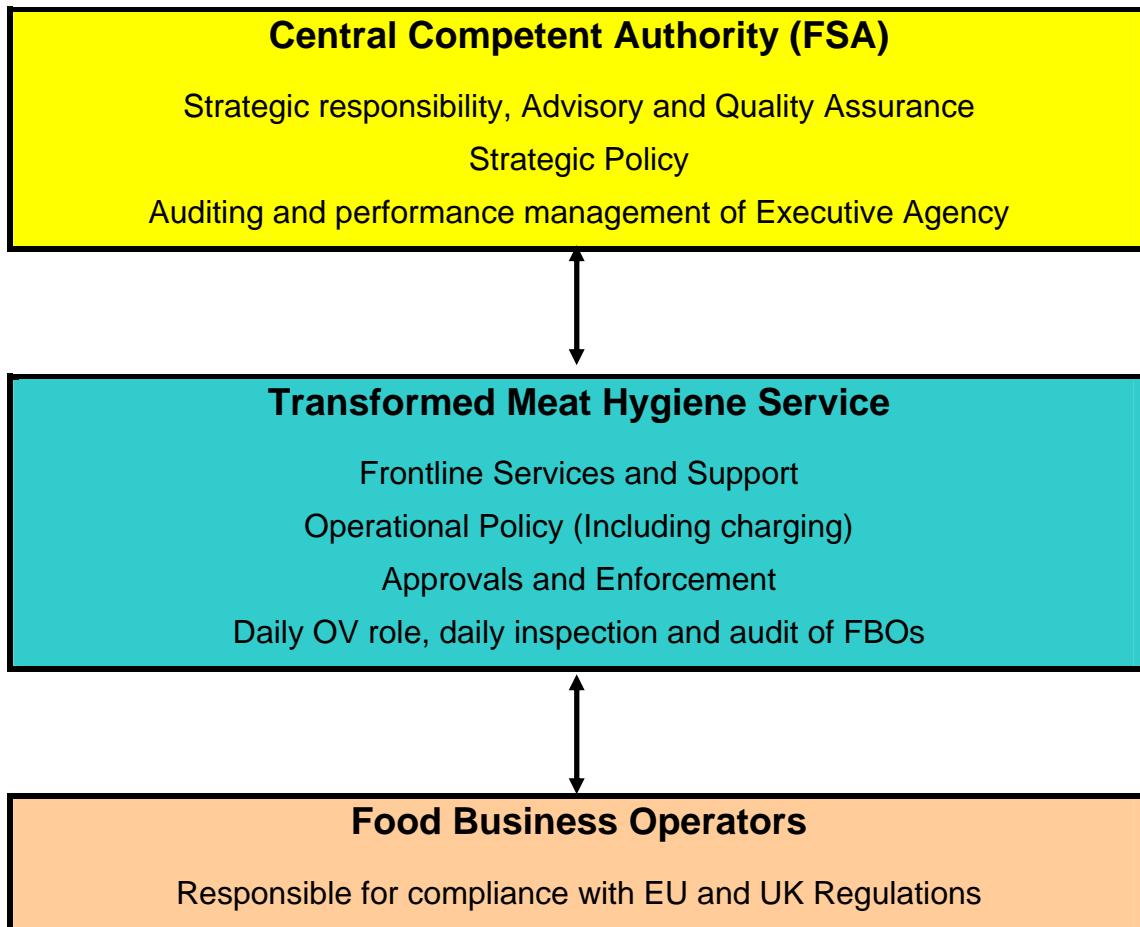
- Reducing frontline staff
- Streamlining corporate services and regional offices
- Integrating veterinary management into operational delivery
- Rationalising regional management centres
- Joint working with FSA on common corporate services
- Investing in new IT
- Reducing managerial overheads in the MHS and its contractors

- Introducing time-based charging to provide efficiency and compliance incentives for Food Business Operators.
- 5.4 The planned cost reductions are prudently based and their impact has been modelled until 2011/12. To deliver further reductions beyond that date, the TMHS will build on its growing capability to do even more with less. For example, a further rationalisation of staff costs (50 FTE) will be possible through ongoing TMHS improvement and increased FBO compliance.
- 5.5 Finally, the TMHS proposal includes provision for IT infrastructure to deliver regulatory Food Chain Information requirements, the transfer of plant approvals from the FSA to the TMHS and further development of MHS health and safety management systems.

Components of the TMHS Model

- 5.6 Figure 1 below shows how responsibilities would be divided between the FSA, TMHS and FBOs in the TMHS proposal. The main difference to the current model would be that responsibility for plant approval, revocation or suspension of approval, enforcement decisions and operational policy (for example on charging) would move from FSA's Meat Hygiene and Veterinary Division to the TMHS. Further, the TMHS would play a more active leadership and challenge role with FSA in strategic policy making, ensuring that policy decisions were fully informed by the practical and cost implications of delivery.

Figure 5.1 Proposed Division of Responsibilities in the TMHS Model



TMHS – DETAILS OF THE BUSINESS CASE

- 5.7 The Transformed MHS will build on its Cabinet Office Charter Mark Award for “Excellence in the provision of public services” by transforming service delivery and reducing costs. It will deliver a practical, end to end, professional business solution from approval to enforcement, applying consistent and controlled management to the full process.
- 5.8 The TMHS’ vision for its own future is to be a leading meat audit and assurance service with professionalism and respect at the heart of its delivery of Official Controls. It will deliver a comprehensive, joined up, innovative and consistent service focused on outcomes for consumers, government customers and Food Business Operators (FBOs).
- 5.9 The MHS will transform in the four areas described below.

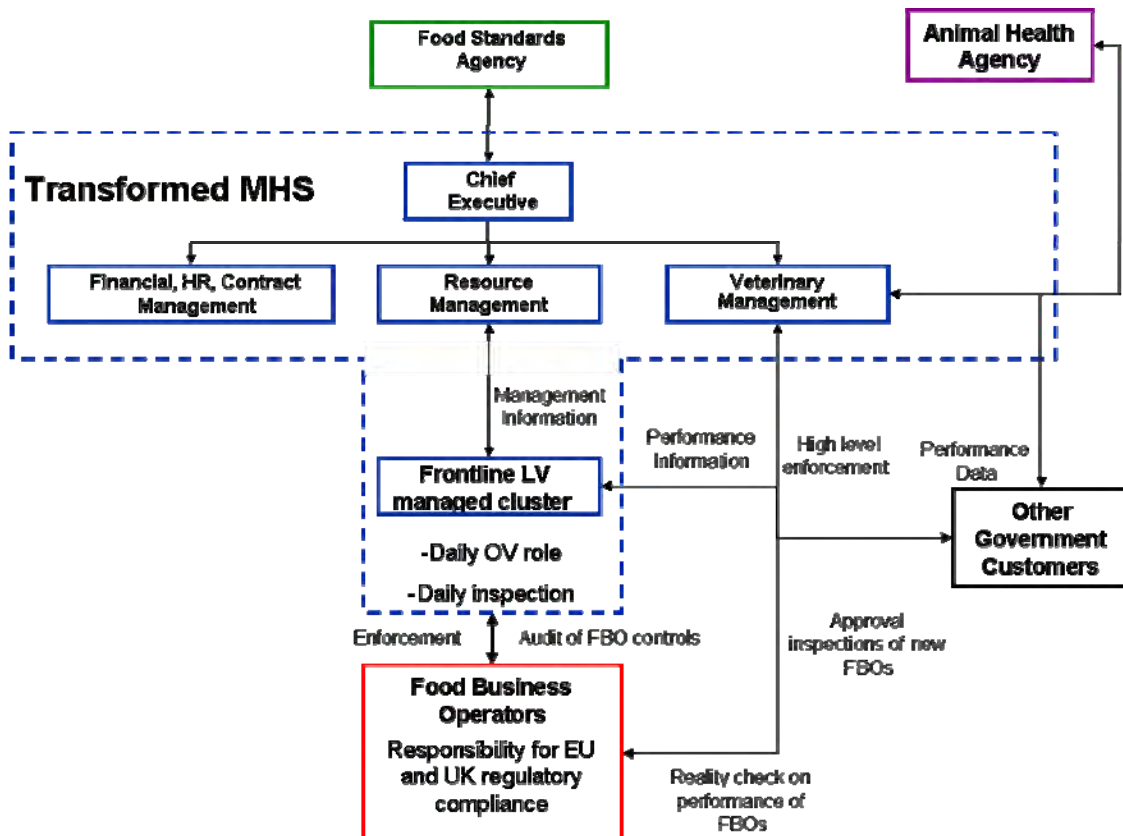
Area of Focus 1 Improved Veterinary and Technical Delivery

- 5.10 TMHS will provide an “end to end” service, incorporating approvals through daily ante mortem and post mortem inspection to suspension and revocation of operating licences. It will be a veterinary driven

organisation with a strong commercial and business focus. Veterinary management will be integrated throughout its operations.

- 5.11 Figure 2 below shows the functional components of the TMHS proposal, illustrating how veterinary management structures will be strengthened to make the TMHS a veterinary-driven organisation.

Figure 5.2 Functional Components of the TMHS Proposal

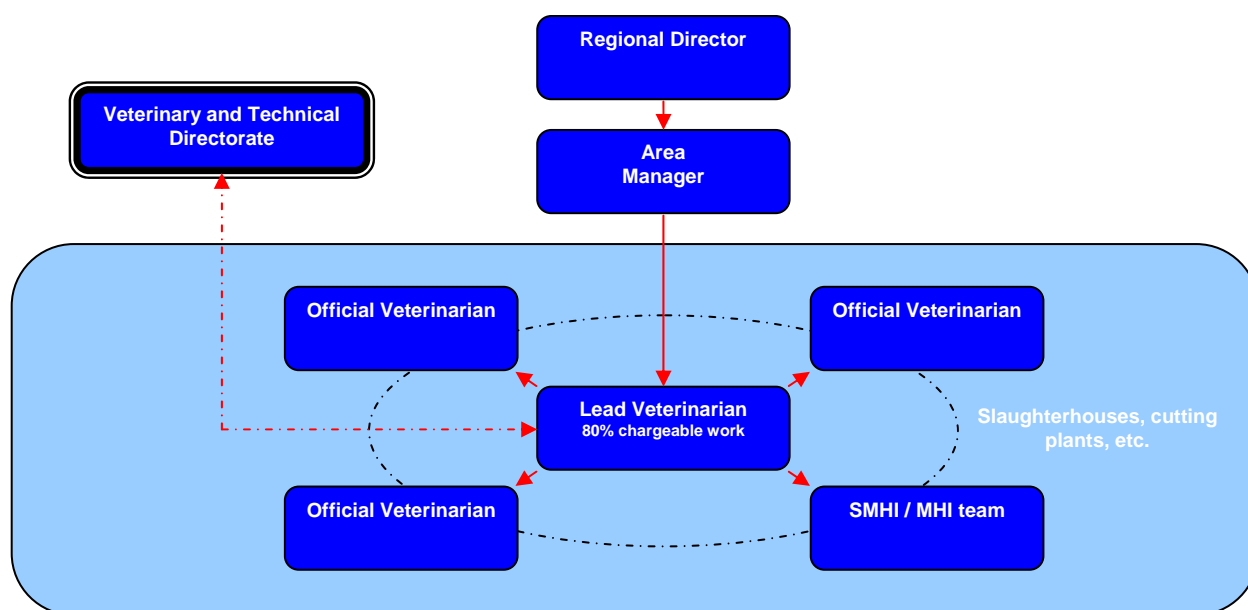


- 5.12 The TMHS will itself be responsible for every aspect of veterinary and technical delivery and will apply consistent and controlled management to the full process. It will take over responsibility for plant approvals and enforcement from the FSA, which will enable it to combine this work with the other duties of Official Veterinarians (OVs) within the MHS so that the best use can be made of these resources. As well as generating efficiencies, this will produce a more transparent organisational structure that makes clearer to stakeholders who is responsible for specific issues. It will also address the current duplication of roles and overlap between the MHS and the FSA.
- 5.13 The TMHS will adopt a proportionate, risk based approach to regulation, working in partnership with industry to educate and advise before initiating formal enforcement action. It will undertake to protect public health and animal health and welfare without commercial compromise.
- 5.14 The TMHS aims to be actively involved at the heart of policy formulation, leading and challenging the FSA and Defra. This will ensure that

veterinary and technical policy is developed in ways that are sensitive to the needs of frontline staff and can in practice be delivered by them.

- 5.15 In the TMHS, veterinary management will be integrated throughout all operations. To ensure consistency of delivery, operations will be directed by MHS headquarters rather than through the current decentralised, regional structure. The Official Veterinarian (OV) will become the team leader in plants, responsible for the proper delivery of Official Controls.
- 5.16 Under the TMHS proposal, most plant OVs will continue to be contracted from independent companies working in partnership with the TMHS. Approved plants will be grouped together in new “geographic clusters”. A new post of “Lead Veterinarian” (LV) will be created to lead each cluster of approved premises on both technical and managerial issues, with the current MHS veterinary advisors playing an important role. Plant OVs, while being employed by contractors, will be managed through the TMHS line management structure by the Lead Veterinarians. These LVs will help build closer links between OVs and the Meat Inspectors in the plants. The TMHS expects that some of the LVs will come from realignment of existing MHS veterinary posts but that there will also need to be significant external recruitment to provide the 82 LVs that are required to look after the new clusters.
- 5.17 The new LVs will be visible to the FBOs and responsible for fostering a partnership approach to the delivery of Official Controls. TMHS will clarify its lines of operational and veterinary management to ensure there is no overlap or duplication in management roles.
- 5.18 The organisation and line management of the proposed clusters is shown on the diagram below.

Figure 5.3 Proposed Organisation of TMHS Clusters



5.19 As the diagram shows, the Lead Veterinarian will be a key role in managing the work of the Official Veterinarians in plants and supporting them in the delivery of Official Controls. This is intended to help the TMHS overcome the current MHS difficulty that plant OVs are virtually all employed by (and answerable to) independent contractors while the Meat Inspectors that the plant OVs are required functionally to manage are employed directly by the MHS. In some plants this works well but in others the lack of clarity in the reporting line causes difficulties.

5.20 Following the introduction of this new group of LVs employed by the TMHS, the proposal recognises that this provides scope to reduce the rest of the management hierarchy. The TMHS proposal is shown on the chart below.

Table 5.1 Proposed Structure of the TMHS

Current Structure	Transformed MHS Model
5 Regions 5 Directors 5 Offices	4 Regions 4 Directors 4 Offices
28 Areas 28 Area Managers	18 Areas 18 Area Managers
93 Spans of Control 93 SMHIs	82 Spans of Control 82 LVs 82 SMHIs

5.21 In addition to these proposals on veterinary organisation, the TMHS model proposes that:

- **Enforcement:** Plant OVs will continue to be responsible for enforcement at a local level. Recommendations for formal investigation for possible prosecution would be cleared through

the LV and in turn by the TMHS Veterinary and Technical Directorate. This replaces the current arrangement whereby recommendations for enforcement by contract OVs are often cleared through the contractor's own veterinary management structure before referral to the MHS Regional Office.

- **TMHS Audit:** The MHS is presently audited by (a) its own internal audit (b) the FSA (c) the Food and Veterinary Office (d) the National Audit Office and (e) Other Government Departments for which the MHS provides a service. The TMHS proposal calls for this number and variety of audits to be reduced and simplified.

5.22 Finally, TMHS will introduce an effective competency and performance assessment system to ensure that its workforce has the appropriate skills and behaviours for their new roles. The enhanced professional support provided by its veterinary managers will allow the TMHS to increase the effectiveness of its inspections, improve the quality of its audit and consistently to apply risk based enforcement. These will serve to deliver improved relationships and a partnership approach with industry customers.

Area of Focus 2 Effective Partnerships with Customers and Stakeholders

5.23 The TMHS will be an outward facing organisation, responsive to stakeholder requirements. It will build on its existing relationships with industry and trade associations, the FSA and Other Government Departments, UNISON (the recognised Trade Union for the MHS) and all other stakeholders.

5.24 The TMHS proposes a new model for its relationship with the FSA as Central Competent Authority, designed to help build trust and professional relationships between the two organisations. This would involve:

- The FSA to set the strategic policy direction and to specify outcomes and high level targets for the TMHS;
- The TMHS to manage operational policy, such as charging, and the detailed planning to deliver frontline controls in approved plants, requesting advice from the FSA as required;
- The TMHS to influence and help develop policies with the FSA and Defra to ensure that they take more account of frontline experience and are designed in ways that will improve the quality and practicality of delivering Official Controls in meat premises.

5.25 TMHS will develop a culture that places the customer at the forefront of the daily work carried out by all staff. It will build greater trust with industry and all those that benefit from its services. It will provide strong, clear leadership and direction in its field of expertise.

5.26 The TMHS is talking to the trade associations to discuss how the organisation can meet their service demands. It recognises the need for partnership working if the TMHS is to deliver a cost effective and

sustainable service and satisfy the demands that industry bodies have made for radical change.

- 5.27 TMHS will use partnership working to achieve common goals. One example will be the determination of a new charging system, which will move towards full cost recovery and introduce time-based charges. Another example is that the TMHS will engage with FBOs and industry representatives to establish operational contracts that set out the number of OVs and Meat Inspectors required to deliver Official Controls in each plant, formalising a good balance between operator demand, MHS manpower supply and the production of safe meat. Whilst maintaining consistent quality standards, the TMHS will recognise the diversity of FBO requirements and will use local veterinarians where this is beneficial and cost-effective.
- 5.28 Over time, FBOs will take more responsibility for guaranteeing the safety of their products through earned autonomy. This is in line with the FSA's objectives for the application of risk-based and proportionate inspection that recognises and takes account of an FBOs good track record and evidence of high quality standards and compliance. The TMHS will educate, support and help FBOs towards achieving best practice for the benefit of all stakeholders. Local accountability will be embedded in all the TMHS staff to help to foster this partnership working with the industry that the TMHS serves. Stakeholders will know locally who to contact to solve problems. Fostering partnership working in this way will be used to improve relations with FBOs and enhance trust so delivering more effective but proportionate regulation.
- 5.29 One area of challenge for the TMHS may be managing its relationship with the current veterinary contractors. The TMHS model envisages veterinary contractors remaining an essential part of service delivery, but on a call-off basis simply to supply CVs of qualified OVs to the TMHS, rather than contracting for a fully managed service for a given plant or group of plants. There is a risk for the TMHS in this approach that the current experience and skills of the contractors in managing frontline OVs, including training, will be lost to the system. The TMHS proposal acknowledges that some contractors have concerns about this proposed new role while others have been more responsive.
- 5.30 The TMHS will be more involved in shaping its own destiny. Consumer groups have said that the TMHS is, in their view, the only acceptable solution for the delivery of Official Controls. The MHS does not see this as a sign for complacency but a driver for improvement and necessary change.

Area of Focus 3 Efficient and Effective Use of Resources

- 5.31 To achieve the necessary organisational flexibility, the TMHS is developing a joint modernisation framework for employer and employee relations with UNISON, as its recognised Trade Union. This framework will offer flexibility within a structure designed to promote consistency, work-life balance, appropriate rewards and dignity and respect for all staff, together with improved performance management.

- 5.32 The TMHS will ensure effective and flexible deployment of staff, based on the levels of attendance and service required by the industry that it serves. TMHS will organise its frontline staff around new geographic clusters of plants to improve flexibility and reduce costs, including overtime and non-chargeable overheads. Teams of managers, OVs, senior inspectors and inspectors will be based on the new clusters and expected to provide holiday relief and sickness absence cover from within their own teams.
- 5.33 The potential for OV flexibility in discontinuous premises will be utilised to make the best use of available resources. A pilot to establish flexible deployment in such premises is already underway and achieving results in some premises.
- 5.34 These changes, together with the ongoing Staffing Verification Exercise, are expected to deliver a reduction of at least 120 operational posts by March 2009, saving some £3.5m per year.
- 5.35 In addition, Senior Meat Hygiene Inspectors (SMHIs) will be expected to spend more of their time doing chargeable meat inspection work. This will help the TMHS to streamline resources and put them where they are most needed, at the front line.
- 5.36 The TMHS will incorporate both private and public sector working to achieve the maximum benefits in terms of flexibility, skills, behaviours and costs associated with both approaches. Although contract staff will continue to play a large part, they will be more formally incorporated into MHS management structures so that an integrated service with a single line of management is developed.
- 5.37 The efficiency and effectiveness of the TMHS is closely linked to the adoption of time-based charging (see above). Time-based charging will be a requirement of the transformation process for the MHS. It will provide a commercial driver for the industry to make effective use of TMHS resources, as charges will be directly linked to the way in which industry uses those resources.
- 5.38 While recognising the need to support small and vulnerable establishments through some kind of subsidy (which the FSA will provide and the MHS will administer), the overall climate will become one in which charges will be far more transparent than at present. The TMHS undertakes, in conjunction with trade associations, to deliver a time based charging system that will meet overall FSA policy requirements. This is an important part of the transformation programme, requiring the TMHS and the FSA to work in partnership with stakeholders to effect successful change over a realistic timescale. Linked to the attendance project it will be a driver for increased efficiency on the use of MHS frontline resources.

Area of Focus 4 Efficient and effective support structures

- 5.39 The TMHS will remove overheads by reducing management structures, directing more resources to the front line, rationalising headquarters and

regional office functions and undertaking joint working with the FSA and Other Government Departments in common support areas.

- 5.40 TMHS veterinary management will be realigned to become the key cornerstone for delivering veterinary and technical responsibilities as well as for FBO liaison and the business management of frontline staff. TMHS middle management will be modernised and simplified to make it more accountable and responsive to the current industry climate, in recognition of the changes since the MHS' last reorganisation which commenced in 2002. The TMHS will reduce managerial overheads across the organisation and its contract partners, who also provide managerial input to veterinary delivery.
- 5.41 The TMHS will reduce the number of contract holders supplying veterinary and meat inspection services. It will also refocus its management of contracts through the recruitment (within existing resources) of a contract relationship and management specialist to look after this key relationship. TMHS considers that rationalising its supplier base and developing strategic contracting relationships is essential. For example, efficiencies would result from the joint procurement with Animal Health of some £50m of veterinarians per year.
- 5.42 Further efficiencies would result from rationalising the number of regions and areas, which would also address criticisms that the current regional structure is top heavy. The TMHS would carry this out in such a way that stakeholder requirements over devolution continue to be fully met. Reducing regions and areas would free up resources to create a support structure focused more around the front line. It would also promote the consistent implementation of policies and procedures throughout Great Britain by simplifying and compressing the chain of communication and command.
- 5.43 The TMHS will also purchase the right manpower planning tool (software) to help the new management structure to plan and deliver an effective and efficient service, making maximum use of the available resources. This will form part of the "invest to save" element of the TMHS.
- 5.44 In addition, the TMHS will radically review its headquarters structure to reduce overheads across departments while ensuring that the necessary support and direction is provided to those in frontline service delivery. In order to obtain best value from the headquarters' business support functions, transaction processing will be removed from the regional offices and centralised at headquarters. This will generate economies of scale.
- 5.45 The TMHS will provide shared services to Other Government Departments (OGDs) and will share the services provided by OGDs, wherever appropriate on grounds of efficiency and cost. For example, a joint agreement between the FSA and MHS Heads of Corporate Services will focus on joining up working, particularly on IT and Human Resources. Such joint working will deliver transaction and policy efficiencies and remove duplication. It may be expected to achieve a

minimum of 10% saving on the current MHS Corporate Services costs. The TMHS will further reduce bureaucracy by removing all unnecessary information processing from its systems and by e-enabling the collection and collation of and access to vital information.

- 5.46 Health and safety is being reengineered within the MHS and this will continue. The TMHS will deliver a responsive and competent health and safety service on behalf of the FSA, the principal duty holder, within an ever changing legislative framework.
- 5.47 Moving forward, the TMHS will be more involved in shaping its own destiny. It will seek out additional business opportunities as a means of revitalising the organisation as a delivery body and injecting fresh ideas and challenges into the business. This will enable overhead costs to be spread over a greater cost and customer base and make good use of the TMHS skills, experience, knowledge and infrastructure. Part of this change will be for the TMHS to work towards providing services as a Trading Fund in the medium term.
- 5.48 The MHS has identified total revenue opportunities of around £8m so far, some of which are shown in Table 2 below.

Table 5.2 Examples of Total Revenue Opportunities for the TMHS

Opportunity	Business Area	Potential Revenue
1	Meat Assurance and Accreditation Schemes	£3.5m
2	Enhanced FBO related services	£1.6m
3	Animal Health related activities	£0.8m

TMHS Business Case - Summary

- 5.49 In summary, the Transformed Meat Hygiene Service is offering the FSA a solution which it is presenting as a viable business tender from an existing service provider and which:
- Can continue to provide Official Controls in a business as usual way during a transitional period;
 - Is based on a proven model and is credible both with consumers and UNISON;
 - Provides a realistic and prudent approach to delivering necessary change;
 - Sets out further business improvement opportunities that it will target in the medium term (CSR period 2011/12 to 2013/14) to reduce costs further;
 - Is affordable to FSA and FBOs, financially viable and less costly than the status quo;
 - Is practical, based on real experience and can be delivered;
 - Will invest in IT to reduce bureaucracy and deliver new Food Chain Information requirements;

- In short, is transformational.

Benefits of the Transformed MHS

5.50 The TMHS offers the opportunity to build on the proven track record of an existing organisation. The financial modelling for the TMHS has been prudently based with opportunities after 2011 / 12 for further cost savings beyond those included in the modelling. The TMHS will:

1. be a veterinary driven organisation with a strong commercial focus providing public health and animal welfare controls;
2. provide an end to end service from approvals through to enforcement action and revocation of approvals. This will deliver a strategic and consistent approach with an integrated system facilitating targeted enforcement and demonstrating clarity of ownership;
3. take a leading role in policy development and bring to the formulation process operational knowledge and experience to help produce practical solutions which are deliverable;
4. deliver proportionate, risk based regulation, applying a lighter touch where it has been demonstrated that the responsibility borne by FBOs can be increased as a result of earned autonomy;
5. exploit the best of public and private sector working;
6. rationalise regions and areas and so increase the consistency of implementation of policies and procedures, as well as reducing costs;
7. provide the FSA with a health and safety management structure;
8. utilise shared services across the FSA and the wider civil service to benefit from economies of scale and reduce the level of bureaucracy;
9. build on the support of UNISON for the TMHS model to produce a modernisation agreement to help to facilitate the introduction of the changes under the transformation programme;
10. develop additional business opportunities to widen the base of MHS activities and spread overheads over a greater level of chargeable activity.

TRANSFORMED MEAT HYGIENE SERVICE - FINANCIAL DATA

5.51 The TMHS has assessed the financial implications of its proposal to deliver Official Controls for the FSA in the ways it has outlined. The main conclusions are set out below, compared with the current (2006-7) MHS delivery costs. Further details are in Chapter 11.

Current (2006-7) MHS baseline for comparison

Total costs	£91.3m
Revenue	£58.0m
Net Operating Cost	£33.3m (met by FSA)
Cost per livestock unit	£14.11
Total number of staff	2024

Estimated costs of TMHS

These include both one-off set up costs and ongoing delivery costs for 6 years to 2013/14²⁰.

Programme Delivery	£2.1m
Severance	£16.4m
Total over 6 years	£18.5m

Estimated cost reductions by moving to the TMHS Model (from the 2006/7 baseline)

By 2009 – 2010	- £ 9.9m	(Total cost £81.4m)
By 2010 – 2011	- £12.6m	(Total cost £78.7m)
By 2011 - 2012	- £11.9m	(Total cost £79.3m)
By 2013 – 2014	- £15.4m	(Total cost £75.9m)

Forecast net present value saving (over the do nothing option) for ten years until 2017 – 2018 is £103m.

Estimated Pay Back TMHS estimates the upfront investment £18.5 (£16.4 severance costs and £2.1m programme implementation costs) required to set up the new service would be paid back over 27 months – or by the end of FY 2010-2011.

Cost per Livestock Unit TMHS estimates that this would average £13.02 over the CSR period (2008/9 to 2010/11) and then fall to average £11.92 over the next three-year period (2011/12 to 2013/14) and £11.72 beyond

Staffing Changes Modelling is based on a 15% cut (-310) from the current MHS baseline by 2013/14, including severance, improved flexibility and better performance from use of remaining staff. Some staff may transfer from FSA to TMHS and there would be additional TMHS recruitment.

²⁰ In its financial modelling, the MHS has chosen not to model change beyond 2013/14.

Risks and risk management

5.52 The TMHS model proposes significant change, building on an existing organisation with a proven track record. Some of the key risks, together with possible risk management strategies, are shown below:

Table 5.3 Key Risks of the TMHS Model & Mitigation Strategies

Risk	Mitigation
Can the MHS transform itself?	<ul style="list-style-type: none"> • The MHS' staff have shown themselves to be ready for change with 77% in the 2007 Staff Attitude Survey acknowledging the need for the organisation to change • Staff have shown themselves to have a capacity to deal with changes and challenges in the past, such as Foot and Mouth Disease
Can industry be convinced that the TMHS is the preferred delivery body	<ul style="list-style-type: none"> • Discussions with industry are ongoing to explain how the MHS will transform and respond to criticisms that have been raised • The MHS has a new Chief Executive with a commercial background and a mandate to change the MHS
Management of the relationship with contractors at a time when changes are introduced which will affect their businesses	<ul style="list-style-type: none"> • Discussions have been held with contractors to explain the changed environment and the ongoing need for contractors in a changed environment • The partnership approach will be maintained
Can sufficient OVs be employed to fill the LV positions	<ul style="list-style-type: none"> • Work is ongoing to prepare the recruitment drive • The recruitment will be phased as the cluster structure of plants develops
Failure to achieve the planned level of benefit	<ul style="list-style-type: none"> • Business case based on realistic and achievable benefits in set up phase • The prudent forecast of benefits offers scope for the delivery of additional benefits beyond 2011 / 12 • The new MHS • Chief Executive has been charged with the delivery of organisational change
IT facilitation of transformation	<ul style="list-style-type: none"> • ICT strategy based on development from an existing, proven base • IT Department has been structured to have the capacity to deliver a step change in IT enablement
Securing the necessary funding	<ul style="list-style-type: none"> • FSA to make provision in budgeting • "Invest to save" options to be explored

CHAPTER 6:

THE DELIVERY PARTNER (CONTROL BODY) OPTION

- 6.1 The Delivery Partner (Control Body) approach to Official Controls will provide the Food Standards Agency (FSA) with a value for money capability able to adapt rapidly to changing business requirements. The Delivery Partner will be accredited to ISO17020 and independently audited by the United Kingdom Accreditation Service (UKAS), providing assurance for stakeholders and building confidence within Food Business Operators.
- 6.2 Success will be a significant reduction in the input costs associated with inspection tasks while achieving the required hygiene standards. This can only be achieved in partnership with Food Business Operators, FSA actively working with operators to secure the mutual goal of ensuring the effective operation of the UK meat supply chain and the retention of consumer, both national and international confidence. Success is not the number of prosecutions or enforcement notices issued but rather a progressive reduction, as the partnership with industry builds trust and a mutual commitment to innovate and improve.
- 6.3 The FSA will be focused upon the primary regulator responsibilities:
- Defining the required hygiene outcomes for the meat supply chain;
 - Working in partnership with Food Business Operators and consumers to develop standards and champion the UK meat industry;
 - Driving regulatory reform based upon evidence of compliance and optimum risk-based approaches;
 - Performance auditing the Delivery Partner and UK meat industry to ensure the UK approach meets EU regulations and maintains both operator and consumer confidence.
- 6.4 The implementation of a Delivery Partner looks ahead to the integration of UK Government veterinary activity and concentrates veterinary resources currently split between the FSA and MHS to provide a capability able to:
- Provide expert guidance to policy formation;
 - Achieve robust performance monitoring of in plant delivery;
 - Effectively deliver enforcement action;
 - Harmonise operations with Animal Health.
- 6.5 The Delivery Partner will provide an innovative service provider able to strengthen the relationship with Food Business Operators and seek partnerships with complementary business, for example, EFSIS and CMHi, to drive new services for operators. The Delivery Partner will challenge how the perceived risks in the meat supply chain are being

addressed and seek alternative solutions based upon the latest technology and scientific approaches.

6.6 Through the effective procurement of a Delivery Partner the FSA will be able to achieve certainty in terms of future costs over the contract period and focus its own resources upon core activities, leaving the Delivery Partner to effectively exploit the expertise found within the MHS' frontline staff.

6.7 It is important to note that many of the ideas and assumptions underpinning the Delivery Partner option can be applied to the MHS, depending upon the decisions that are made in certain key areas, for example:

- The balance between employed and contract staff used to deliver Official Controls in plants and how performance control is exercised over contract staff;
- The introduction of veterinary staff into key operational management roles;
- Working with contractors at a corporate level to drive up compliance and performance and incentivise the reduction of overall delivery costs;
- Implementing a revised charging approach based upon partnership with industry and clarity in terms of how 'vulnerable' plants will be supported;
- The consolidation of MHS (VET TECH²¹) and FSA veterinary activity;
- The approach to operational delivery in the field, moving away from static regional offices to shared sites with Animal Health or home working and flexible management mirroring the best-practice of businesses deploying staff on a regional basis;
- Joining up with Animal Health to rationalise government buying of veterinary resources and share expertise and organisational capacity;
- The rationalisation of terms and conditions of employment to seek a better alignment with Food Business Operator needs;
- Integrating FSA and MHS corporate service functions. The existence of two separate organisational infrastructures, particularly when the MHS is the single largest cost for the FSA, simply adds cost that customers are unwilling to accept;
- Reviewing the resources required to deliver Official Controls in partnership with Food Business Operators and contractors, drawing upon their expertise;
- The performance targets that are set. The FSA needs to incentivise both an increase in cost recovery achieved and the delivery of a reduction in the input costs associated with

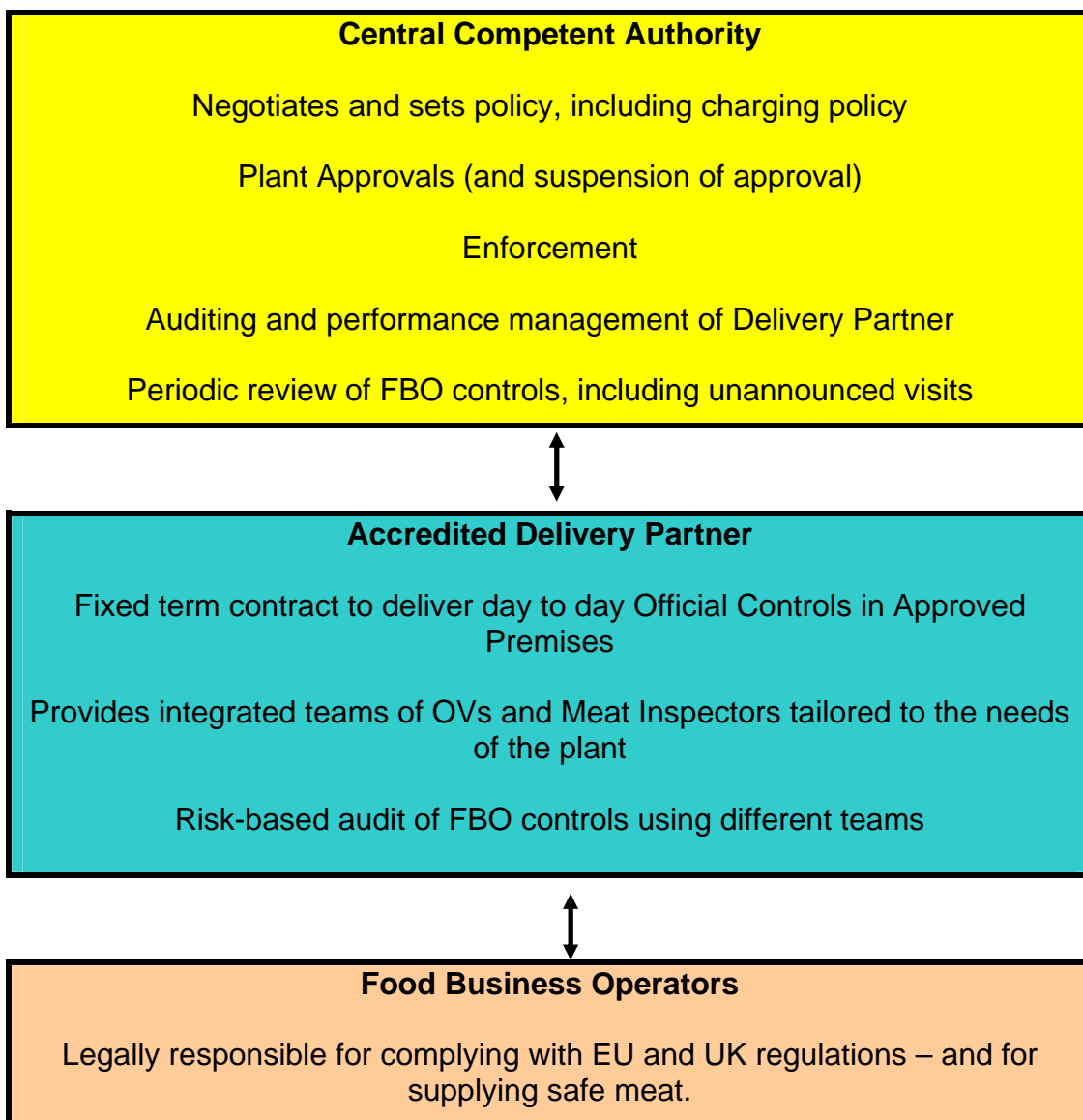
²¹ That part of the MHS that provides professional veterinary and technical advice and expertise

inspection tasks. Fewer hours while maintaining the required standards is a key indicator of Food Business Operator compliance.

Summary Description




6.8 The main components of the Delivery Partner organisation model are shown below. For the purposes of this model, we have assumed that the FSA would competitively tender for one Delivery Partner to provide a service across England, Scotland and Wales. The Delivery Partner could be a single organisation, a partnership or a consortium. In time, if the model works well, the FSA could open up the market to other Delivery Partners. This would create a more diverse, flexible and competitive environment, allowing different Delivery Partners to specialise in particular geographical areas or in types of plant.

Figure 6.1 Delivery Partner Organisation Model



6.9 Under a Delivery Partner model of Official Control delivery, the FSA as the Central Competent Authority would retain responsibility for ensuring the proper delivery of Official Controls, even though it would no longer be the FSA's own agency or employees delivering them. The FSA would also be responsible for promoting consumer confidence in the efficacy of the Official Controls. The proposed division of responsibilities between the FSA and the Delivery Partner is shown below.

Figure 6.2 Core Responsibilities of FSA and Delivery Partner

	Core Responsibilities and Activities	Current	Future
Central Competent Authority	<ul style="list-style-type: none"> Public confidence in standards of control and inspection Assuring the proper delivery and quality of Official Controls through accreditation and performance management of Delivery Partner and relevant systems Plant approval and revocation of operating licence Enforcement systems and strategic enforcement decisions, including appeals 		 Including new Vet meat hygiene and Official Control Delivery Division
Audit Tasks	<ul style="list-style-type: none"> Audit and Performance Management of the frontline inspection service Audit of Food Business Operator's controls^(note1) 		
Inspection Tasks	Tasks reserved for Official Veterinarians <ul style="list-style-type: none"> Ante-mortem inspection of animals Inspection and verification of Food Business Operator's controls Emergency enforcement if required. Routine enforcement and action related to improvement notices and ensuring compliance 		NEW DELIVERY PARTNER

	<p>Tasks for OV and/or Meat Inspectors</p> <ul style="list-style-type: none"> • Post-mortem inspection • Health marking of carcasses • Services for Defra, Rural Payments Agency, Veterinary Medicines Directorate, including sampling • Verification of SRM controls 		
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Note 1: Under this model, the audit of FBO controls would be a joint responsibility between the FSA and the Delivery Partner. The Delivery Partner would carry out the audit and it would then be verified by the FSA's Regional Veterinary Manager.

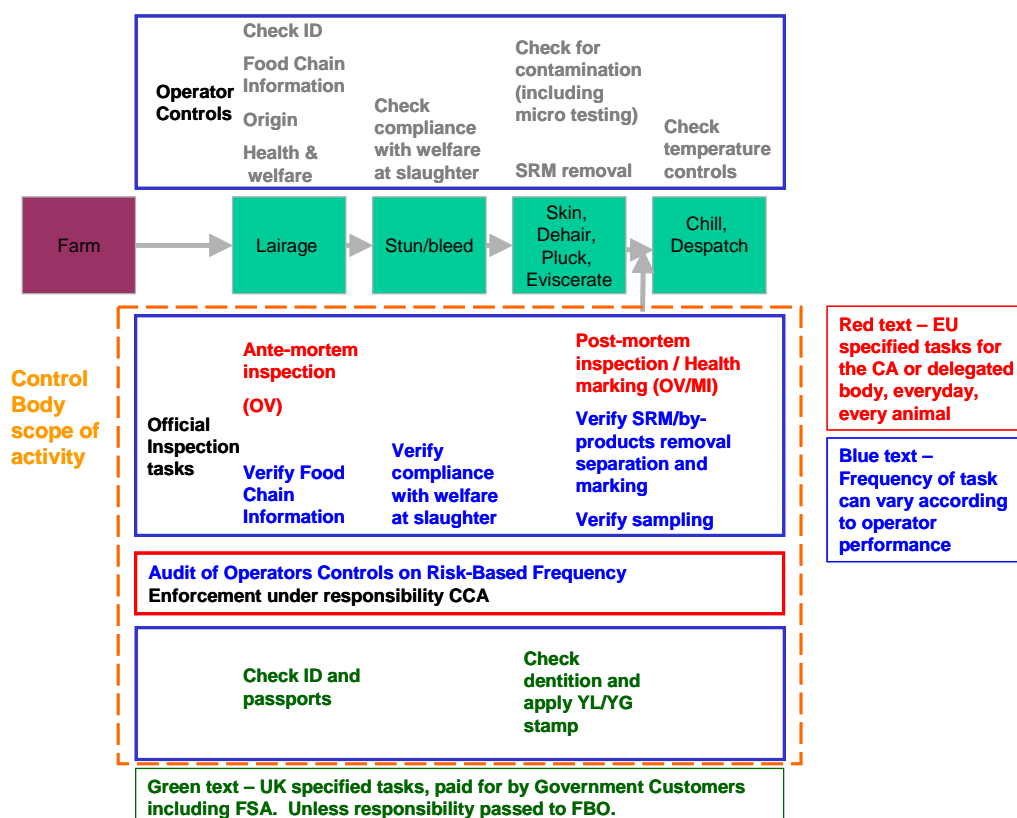
This model is based on a clear separation of responsibility between **policy** and **frontline delivery**:

- The FSA, as Central Competent Authority, would build on its strengths and core skills in strategic policy, quality assurance, stakeholder management and the delivery of change. It would no longer employ staff to conduct the front-line delivery of meat inspection.
- The Delivery Partner would specialise in the recruitment, training, efficient deployment and management of the Official Veterinarians and Meat Inspectors required to deliver Official Controls across the UK. Their experience and expertise in frontline delivery would help ensure that they operate within agreed budgets to deliver an inspection service that responds flexibly to the different requirements of different plants while supporting consistently high standards of meat safety and compliance.

6.10 Between the FSA and its Delivery Partner would be a new **Veterinary Meat Hygiene and Official Control Division** in the FSA with three main responsibilities:

1. Policy on meat hygiene and Official Controls. Veterinary oversight and supervision of the operation of Official Controls, including advice to OVs and the Delivery Partner, plant approval and revocation of operating licences, management of enforcement, auditing of delivery in plants and, in conjunction with plant OVs, audits of FBO controls including unannounced visits.
2. The tendering and procurement of the contract for the Delivery Partner and ongoing contract and performance management with the Delivery Partner.
3. The operation of the charging regime, including invoicing, collecting fees and dealing with bad debts and disputed charges. (Note this could be outsourced or given to FSA Finance to manage).

Figure 6.3 Scope of Delivery Partner Activity



Steps to Contracting a Delivery Partner

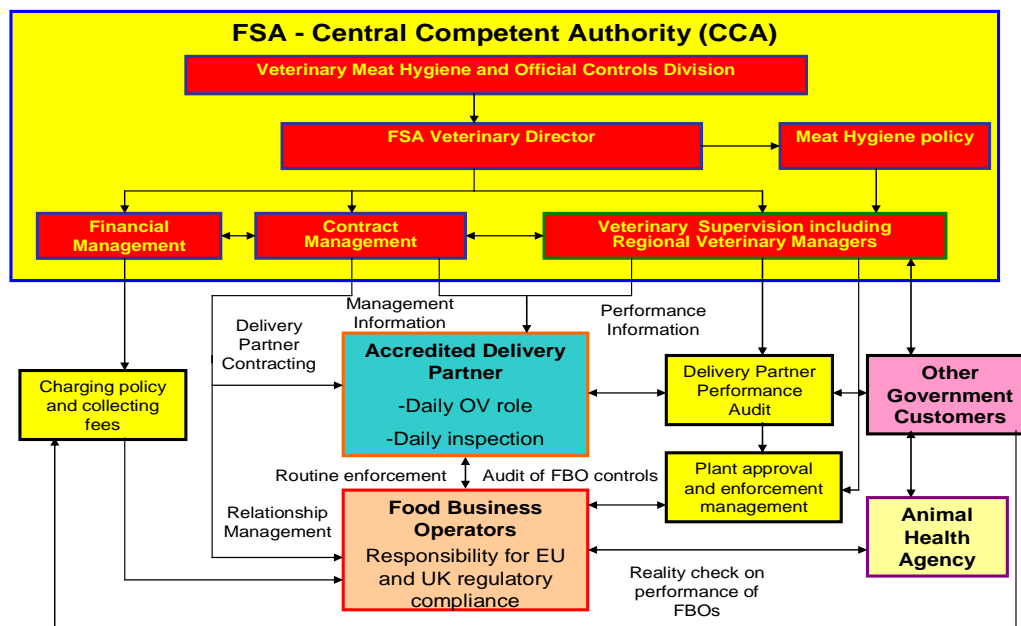
6.11 If the FSA Board chooses to pursue this Delivery Partner model, there are several steps that would need to be completed during the 12 – 24 months leading up to the date of transfer of responsibility from the MHS. These include:

1. Continuing vigorously to review and rationalise the current MHS operation to reduce the scale of activities that would need to be transferred. For example, the MHS Staffing Verification Review should be completed and fully implemented.
2. Prepare and make necessary changes to the current UK legislation, especially concerning charging. It would be sensible to ensure that UK legislation specifically recognises the delivery of Official Controls by an independent Delivery Partner under contract to the FSA. This will require a fairly simple Statutory Instrument (SI) setting out that the FSA, as Central Competent Authority, is formally delegating the delivery of frontline Official Controls to an independent Delivery Partner, as envisaged under EU Regulation (EC) 882/2004.
3. Completing a competitive dialogue procurement process. This is an arrangement whereby the contractor (FSA) works with potential providers, Food Business Operators and other interested stakeholders (e.g. consumers, unions, Other Government Departments) to define what is to be tendered and the delivery solutions envisaged under the proposed contract. This process could take 18 - 24 months before the

best Delivery Partner is identified, contracts signed, staff transfer negotiated and the new regime to ready to start work.

4. On an agreed date, the responsibility for delivering Official Controls in plants would pass from the MHS to the chosen Delivery Partner. We would expect some 1030 frontline MHS staff would transfer to the Delivery Partner on that date, their terms and conditions protected by the TUPE (Transfer of Undertakings, Protection of Employment) arrangements.
 5. Subsequently, the corporate service and regional management infrastructure of the MHS would be decommissioned, leading to the loss of an estimated 329 FTE posts. This would enable the Delivery Partner to design new corporate service and operational management systems that reflect the new approach to delivery and a rebalancing of responsibilities with the FSA. For example, we would expect there to be a single, veterinary led management chain rather than separate veterinary and operational management lines as in the current MHS.
 6. As the MHS would cease to exist as a separate organisation, those functions that did not cease or transfer to the Delivery Partner would revert to the FSA. There would be opportunities for MHS staff also to transfer. For example, the FSA would need to:
 - Establish a new FSA Veterinary Meat Hygiene and Official Control Division, integrating MHS and FSA veterinary and other staff to provide a single focal point for plant approvals, enforcement, policy development and negotiation.
 - Establish a professional contract management team to drive out performance improvements and efficiency gains in the system and to undertake contract negotiations and performance management of the Official Control Delivery Partner. Success of the Delivery Partner model will rely on the FSA having excellent contract management and becoming an “intelligent client”.
 - Consolidate the MHS and FSA Finance functions, creating the opportunity for economies of scale and improvements in budget control and management, alongside developing charging policy and the systems for invoicing and collecting of charges from approved meat premises.
- 6.12 One option for the FSA’s organisation of these responsibilities is shown in Figure 6.4 below. All the existing and new responsibilities – for veterinary oversight and quality control, for contracting and performance management of the Delivery Partner and for financial management and charging could be brought together under the FSA’s Veterinary Director. Alternatively, financial matters could be managed by the FSA’s Director of Finance.

Figure 6.4 Possible organisation of the FSA Veterinary Meat Hygiene and Official Controls Division



6.13 The Veterinary Meat Hygiene and Official Controls Division's core responsibilities would be:

1. Developing meat hygiene policy and negotiating with partners to lead the future direction of UK and EU regulations.
2. Auditing the performance of the Delivery Partner to:
 - Assure their compliance with the terms of the contract;
 - Verify their internal business systems, including cost-effectiveness and budget control;
 - Assess the performance and competence of their Official Veterinarians and Meat Inspectors;
3. Approving plants and revoking/suspending that approval if necessary.
4. Reapproval visits to plants as necessary and on a risk-basis.
5. Setting and managing enforcement policy and activities, including:
 - Appointing the plant Official Veterinarian as an agent of the FSA to undertake specified, delegated enforcement action on its behalf;
 - Undertaking other enforcement action. Note that Veterinary Meat Hygiene Advisors (VMHAs) and enforcement tasks currently undertaken by the MHS will transfer to the Veterinary Division.

The FSA's Veterinary Director or their nominated representative will be responsible for all decisions on possible prosecutions, taking advice as appropriate from FSA Legal.

An essential part of the reform programme is the implementation of a more effective enforcement regime. Compared with the current situation (a large number of relatively ineffective but expensive enforcement activities), enforcement needs to be better targeted and more strategic, with quicker follow up where required improvements have not been made and sustained. The FSA's Veterinary Director should have the authority and means to act decisively and quickly, including temporary suspension of an operating licence if required²². This is an important part of the Competent Authority's responsibility for delivering Official Controls effectively, promoting safe meat and consumer confidence. The majority of FBOs who genuinely wish to comply with the law and co-operate with the authorities also have a right to expect the Competent Authority to take firm action against the minority of businesses that do otherwise. Effective enforcement is a key driver for improved compliance and higher standards. It should be linked to financial incentives for compliance delivered through an intelligent charging system.

6. Regularly auditing a sample of FBOs' controls to confirm the effectiveness and operation of HACCP in plants, the standards of FBO audit by the Delivery Partner and to check on frontline delivery of Official Controls. This should include a programme of unannounced visits to approved premises.
7. Liaising with Animal Health to improve the effectiveness of 'whole system' risk management (farm to slaughter) and promoting the effective sharing of resources and information.

6.14 Under this model, the Delivery Partner would provide:

- Delivery of Official Controls (meat hygiene and animal health and welfare) to all approved plants in England, Scotland and Wales. (Note, however, that if the FSA moved eventually to appoint a number of Delivery Partners, some geographical specialisation would be possible).
- Frontline Official Controls to Food Business Operators to standards set by the FSA, using integrated teams of Official Vets and Meat Inspectors to meet the needs of each plant and to maximise teamwork and performance. The Delivery Partner would be responsible for recruiting, training and retaining a high quality workforce.
- Risk-based audit of Food Business Operators' controls, using independent staff rather than the plant's own Official Vet. The FSA's Regional Veterinary Supervisors would quality control

²² In principle, licence suspension can happen under the present arrangements but is rarely used as a sanction.

these audits and also conduct unannounced audits of Food Business Operators.

- Contingency planning to ensure that the FSA and Defra can respond properly to national emergencies or other system failures.
- Other services that may be agreed with FSA, Defra or Other Government Departments.

DELIVERY PARTNER OPTION - FINANCIAL DATA²³:

6.15 For the purposes of financial modelling, we have assumed that the FSA would contract the delivery of Official Controls to a single delivery partner and the MHS would be closed down as a separate organisation. The main conclusions are set out below, compared with the current (2006-7) MHS delivery costs. Further details are in Chapter 11.

Current (2006-7) MHS baseline for comparison

Total costs	£91.3m
Revenue	£58.0m
Net Operating Cost	£33.3m (met by FSA)
Cost per livestock unit	£14.11
Total number of staff	2024

Estimated costs of new Delivery Partner

Programme Delivery	£3.5m
Severance	£19.6m
Ongoing FSA Management	£2.8m per year
Total over 10 years management cost = £48.8m	£23.1 one off + £25.7m ongoing
(Total over 6 years	£37.4m - for comparison with TMHS)

Estimated cost reductions by moving to the Delivery Partner Model

By 2009 – 2010	- £10.4m	(Total cost £80.9m)
By 2010 – 2011	- £12.6m	(Total cost £78.7m)
By 2011 - 2012	- £18.3m	(Total cost £73m)
By 2017 – 2018	- £25.6m	(Total cost £65.7m)

Forecast net present value saving (over the do nothing option) by 2017 – 2018 is £112m.

²³ The assumptions underpinning the Delivery Partner model are detailed in the Official Control Programme Phase 2 – Delivery Partner (DP (Control Body)) Option Business Case Document, 31st May 2007

Estimated Pay Back We estimate the upfront investment costs of £23.1m in total (£19.6m severance and £3.5m programme implementation) to set up the Delivery Partner would be paid back over 44 months – or by the end of FY 2011-2012.

Cost per Livestock Unit We estimate that this would average £14 over the CSR period (2008/9 to 2010/11) and then fall to average £11 over the next three-year period (2011/12 to 2013/14)

Staffing Changes Modelling is based on a 25% cut (-515) from the current MHS baseline by 2013/14, including redundancy (329) and improved flexibility and better performance from use of remaining staff. Some staff would transfer from MHS to FSA and there would be additional FSA recruitment to cover procurement and contract management, financial management and regional veterinary supervision.

Modelling Assumptions and Likely Costs

1. The financial model for the Delivery Partner is based on a series of assumptions developed and agreed with procurement, finance and HR staff in FSA, the MHS, MHS contractors, Food Business Operators, food inspection, audit and certification organisations and major outsourcing companies. We obtained additional specialist advice on TUPE transfers and the Code of Practice on Workforce Matters from HM Treasury and Treasury Solicitors.
2. The financial model sets out the savings a Delivery Partner would have to achieve to be financially viable for the FSA, including compatibility with the Comprehensive Spending Review settlement and achieving a return on upfront investment within a reasonable time. By adopting the competitive dialogue process, the FSA will be able to test the marketplace for Delivery Partners and formally assess the financial and service delivery benefits prior to any formal commitment to proceed.
3. The principal cost of the Delivery Partner model is the staff severance cost associated with closing down the MHS were it to be completely replaced by a Delivery Partner. We have modelled the most expensive scenario, including for example making additional discretionary payments to offset the difference in benefit received by members of the local government and central civil service pension schemes. It would be possible for the FSA to reduce severance costs further during the transition by careful planning of the timing of any redundancy or early retirement packages provided. Our modelling suggests that the severance costs of replacing the MHS with a new Delivery Partner would fall in the range £12.3m to £19.6m, depending on the FSA'S management of the transition.
4. Another potentially significant cost is the MHS's Local Government Pension Scheme (LGPS) liability, currently costing the FSA £1.3m per year and subject to change. Were the MHS to be closed down, there would need to be an agreement with the LGPS trustees on how to deal with this liability. Given that the performance of the investment portfolio is a significant unknown, there could be consequences for the FSA,

such as an increase in the annual contribution required. Both the FSA and the MHS are aware of this risk.

5. The revenue stream has been modelled on the decision taken by the FSA Board October 2006 to increase revenue from charges for Official Controls over the CSR period by (a) increasing the recovery of hygiene costs by £8.5m and (b) introducing charges for SRM controls recovering an additional £6m per annum. This represents a significant increase in charges to Food Business Operators, including a move to time-based charging that has not yet been agreed with FBOs.
- 6.16 It is clear that the initial investment costs of setting up a Delivery Partner and closing down the MHS are substantial. Our modelling has sought to be realistic and not to underestimate these costs. However, that is not to imply that keeping the MHS in its present form would necessarily save money. We should expect that, over time, there will be a declining need for traditional forms of meat inspection, based on fewer plants, the introduction of risk-based regulation and a steady move towards FBO responsibility. This suggests, for example, the need for more supervisory and audit staff in future rather than keeping significant numbers of vets and Meat Inspectors permanently in meat plants. It follows that the FSA will be required to invest significantly in re-shaping the Transformed MHS to respond to these changes. Furthermore, retaining the MHS as a separate agency itself generates additional costs for the FSA which should be factored into any decision on the best way forward.

Benefits of an independent Delivery Partner

- 6.17 Despite the investment required, our models suggest that delivering Official Controls through a contracted, independent partner rather than through the FSA's own agency would achieve significant cost reductions in the medium term, including a return on the upfront investment within four years. In addition to these financial gains, there could be other potential benefits for the FSA and key stakeholders.
1. There would be a clear separation between policy (meat hygiene policy, plant approval and enforcement) and day to day operational delivery in plants. The FSA could concentrate its limited resources on policy, strategy and performance management of the Official Control system to ensure that the required outcomes are achieved. It could be easier for the FSA as Central Competent Authority to effect change through a contract with an independent supplier than through its own, in-house delivery agency.
 2. It is likely that the delivery of Official Controls will change significantly over the 10-year planning horizon of this programme. For example;
 - Food Business Operators should assume greater responsibility for compliance and become less dependent on government inspectors;

- technology will change how risks in the meat supply chain are effectively managed, for example the use of IT to improve traceability and microbiological testing to underpin meat safety;
 - EU regulatory reform should help Member States to focus on outcomes rather than prescribing the detail of how delivery should be achieved. This would open up real opportunities for the FSA to introduce risk-based, proportionate meat inspection, tailored to the individual characteristics of each plant;
 - Better information sharing between farmers, meat producers, retailers, certification bodies and regulators should mean fewer separate inspection, audit and certification schemes and improved levels of mutual recognition. This will reduce the need for and costs of government meat inspection and audit of Food Business Operators.
3. It follows that the FSA needs a Delivery Partner able to adapt quickly to changes in the prevailing environment, lead new approaches to risk management and identify new business opportunities to provide employees with a rewarding working environment. Contracting a Delivery Partner would enable the FSA to transfer these challenges (and in some cases the associated risks) to an independent organisation operating outside the financial and organisational constraints of government with consequent advantages for adaptability and innovation.
 4. The proposed Delivery Partner approach would demonstrate the FSA's willingness to listen to industry and to work in partnership with them to deliver safe meat, consumer confidence and a successful and profitable UK meat industry. It would also challenge industry to work in partnership with the FSA to promote compliance, deliver improvements and ensure that Official Controls are successfully delivered in the UK.
 5. Initially the model is to contract a single Delivery Partner to deliver Official Controls throughout England, Scotland and Wales. However, given that the independent service operates successfully, including achieving a high level of compliance and consumer confidence, the FSA is then well-placed to open up the market and to accredit a range of providers. This element of competition would help keep costs under control as well as offering Food Business Operators some choice of provider.
 6. It is likely that the traditional approach to meat inspection will decline and that there will be less work for people with exclusively veterinary public health and meat inspection experience and skills. It could therefore make sense for them to be part of a larger organisation with a range of career paths and training opportunities, rather than remaining with an organisation whose sole business is the provision of meat inspection services.

7. Associated with the Delivery Partner model, the creation of an integrated Veterinary Meat Hygiene and Official Controls Division in FSA would bring together the veterinary activities currently shared between the MHS and the FSA. This would respond to the European Commission's Food and Veterinary Office (FVO) suggestion that the FSA could usefully have more direct awareness of and input into how Official Controls are delivered on the ground. It would also make it easier to join up with Animal Health and create a government veterinary capability truly able to operate and manage risks "Farm to Fork".

Risks and risk management

- 6.18 The use of a Delivery Partner to undertake front line Official Controls will change stakeholder perceptions of risk. For example, our consumer surveys have shown that, while they retain a high level of trust in the FSA to promote meat safety, they believe that this is best assured by using a single, public sector, government inspection body to deliver Official Controls. Interestingly, few consumers know that most Official Vets are currently contracted by the MHS from the private sector and when they are told this does not seem to diminish their trust in the MHS²⁴. Educating consumers, managing perceptions and building confidence in a new system of meat inspection will be a risk management challenge for the FSA and its Delivery Partner moving forward. This could include recognising and learning lessons from the important role the private sector currently has in the delivery of a number of highly political, public safety services, such as our national water supply and sewage treatment and National Air Traffic Control.
- 6.19 One of the problems with perceived risk in meat hygiene is a lack of understanding of where the critical control points in the supply chain are and how they can best be managed. The involvement of an independent contractor to deliver Official Controls will potentially add to this confusion, meaning that an effective education programme to address the concerns of stakeholders will be required.
- 6.20 The Delivery Partner model has been devised to ensure that the FSA can exercise proper control over the delivery of Official Controls and produce the evidence necessary to address stakeholder concerns. Some of the key risks, together with possible risk management approaches, are shown below.

²⁴ Based on responses in the consumer focus groups described in Chapter 4.

Table 6.1 Key Risks of the Delivery Partner Model & Mitigation Strategies

Risk	Mitigation
<p>Failure to:</p> <ul style="list-style-type: none"> • -Achieve effective transfer of staff to Delivery Partner • -Create appropriate culture and environment for change 	<ul style="list-style-type: none"> • Recruitment of change management expert with experience of major government outsourcing • Extensive consultation with staff and their representatives throughout the process • Timely legal advice • Stakeholder and communication management
<p>Service Delivery Continuity</p> <p>Decline in MHS operational performance during a period of change increasing risks and damaging FBOs' and FSA's reputations</p>	<ul style="list-style-type: none"> • Secure commitment of senior management teams in FSA and MHS to change • Use existing MHS contractors as contingency capability • Use appropriate financial incentives to reduce risks • Change Manager focused on people issues • Dedicated consultation forum implemented with UNISON and FBOs
<p>Procurement process is delayed</p>	<ul style="list-style-type: none"> • Recruitment of procurement expert • 6-month buffer built into timetable • Flexible programme management approach
<p>Delay in regulatory reform of UK legislation</p>	<ul style="list-style-type: none"> • 6-month buffer built into schedule • Effective programme management
<p>Missing deadlines and cost overrun</p>	<ul style="list-style-type: none"> • Programme Manager recruited, supported by appropriate team • Ensuring that good governance is in place, including Defra, consumers and FBOS • Detailed planning in 6-month set up period • Use of OGC Gateway Review Process

Risk	Mitigation
Failure to achieve the planned level of benefit	<ul style="list-style-type: none"> • Business case based on realistic and achievable benefits in set up phase • Allocate benefits to “benefits owners” • Deliver early benefits to build momentum • Senior Responsible Officer targeted to deliver
Technology Complexity (IT)	<ul style="list-style-type: none"> • Systems strategy is based on using existing, proven IT systems, such as the MHS system • Expert “client side management” resources to support FSA
Local Government Pension Scheme liability – potentially significant financial unknown	<ul style="list-style-type: none"> • Formal discussion prior to starting the programme to secure agreement on the conditions associated with the transfer of responsibility from the MHS to the FSA • Agreement on the limits to the FSA’s exposure to future increases in contributions
Securing sufficient initial funding	<ul style="list-style-type: none"> • FSA to make provision in annual budget • Investigate potential “Invest to Save” type options • Investigate potential partners to share initial investment costs
A suitable Delivery Partner cannot be identified and secured	<ul style="list-style-type: none"> • Use the Competitive Dialogue process to enable the FSA and stakeholders to build the optimum solution and be flexible in terms of the proposals made by potential providers • Alongside the introduction of a Delivery Partner, the MHS will continue to transform such that, if no partner can be secured, the MHS will continue to operate

Conclusions

6.21 Our research and modelling suggests that an independently accredited Delivery Partner, working under contract to the FSA, could deliver Official Controls effectively and efficiently. Over a ten year planning horizon, it could do so at lower costs than could easily be achieved by keeping the delivery of Official Controls as a public sector monopoly. Further, a Delivery

Partner could provide the flexibility to respond to future needs and draw in experience and good practice from accreditation, certification and inspection activities in the wider economy.

- 6.22 A Delivery Partner, being an independent, accredited organisation, could mobilise Food Business Operators, government customers and suppliers to work more effectively together to manage future challenges and risks.
- 6.23 Moving forward in the CSR period, the FSA will need to focus its finite resources on its priorities, such as developing and negotiating food safety policy and its research, public information and awareness campaigns and outreach to FBOs. While the operational delivery of frontline meat inspection need not be incompatible with this strategic role, the FSA might equally wish to consider contracting independent partners to provide this service more cost-effectively and to share at least some of the risks.
- 6.24 In doing so, the FSA would not relinquish its responsibility as Central Competent Authority to ensure that Official Controls are properly delivered and it would continue to approve plants, visit and audit plants, support OVs and take strategic enforcement decisions. It would simply be taking full advantage of the provision in the EU regulation allowing it to delegate the frontline delivery of Official Controls to an independent body. By establishing a clear break between policy and operational delivery, the FSA could leave the Delivery Partner free to focus on meeting customer needs and providing a rewarding working environment for its staff.
- 6.25 Our modelling suggests that the up front investment required to implement a full Delivery Partner model (a maximum of £23.1m) is unlikely be recovered during the Comprehensive Spending Review period 2008/9 to 2010/11. However, the longer the Delivery Partner is in operation, the greater will be the potential for financial savings such that, over a 10-year period, a deliver partner would not only repay the initial investment but could also result in a net cost saving of £196.5m in comparison to the Baseline Do Nothing option²⁵. Another potential advantage of the Delivery Partner model is that the FSA could control costs through the terms of the contract and share the future costs of investment and any risk of overspend more equitably than might be possible with an in-house agency.
- 6.26 One issue to consider carefully is that significant groups of stakeholders, including UNISON, most Meat Inspectors and many consumers have said that they are against the “privatisation” of meat inspection. Certainly, the use of a new delivery model would generate risks that would need to be managed and it is not a foregone conclusion that the private sector will always be more efficient than the public sector. However, it is difficult to be opposed to the use of the private sector when we remember that the MHS currently delivers Official Controls by relying on up to 60 private sector contractors to provide some 300 Official Vets and 200 contract Meat Inspectors. Hence, the use of the private sector to deliver meat inspection is nothing new in principle. What would be new in this model (and, we think, the first in the world) would be to contract an accredited private sector provider to deliver Official Controls in a defined number of plants by

²⁵ Delivery Partner Option Business Case, Incremental Cash Flow Analysis, May 2007

employing both OVs and Meat Inspectors in a single management system. As a model, we believe it has merit and should be explored further, preferably through a pilot or trial, as part of the implementation phase of the Review.

CHAPTER 7:

CONTROLS IN LOW THROUGHPUT PREMISES

Legislative Background

Slaughterhouses

- 7.1 EU Regulation 853/2004 requires that all slaughterhouses are approved by the Competent Authority and subject to Official Control by an Official Veterinarian (OV). There is an exception for on-farm slaughter of small quantities of poultry or rabbits for direct sale to final consumers or local retailers, which does not need approval. Game handling establishments must also be approved by the Competent Authority and subject to OV control, although hunters may supply small quantities of game meat directly to final consumers and local retailers without approval or Official Veterinarian Control.
- 7.2 In approved premises, the OV must personally carry out ante-mortem inspection and a regular audit of the operator's controls. For other Official Controls, such as post-mortem inspection, the OV may be assisted by qualified Official Auxiliaries (OAs), called Meat Inspectors or Hygiene Inspectors (MHIs) in the UK. In poultry and rabbit slaughterhouses only, the OV may be assisted by trained staff employed directly by the Food Business Operator.
- 7.3 Previous EU legislation allowed low throughput slaughterhouses²⁶, which supplied the national market only, to operate with simpler and more proportionate Official Controls. While ante-mortem inspection had to be carried out by an OV, the checks on operators' own controls could be carried out by Meat Inspectors, and the permanent presence of an OV was not required. Of the 297 red and 102 poultry meat slaughterhouses currently operating in GB, 108 and 35, respectively were low throughput. Similarly under previous legislation, game handling establishments were only subject to OV control if they were producing for export. As a result of the new regulations, some 50 game handling establishments are being approved and coming under Official Veterinary Control for the first time.
- 7.4 The new regulations, designed to be more risk-based, treat slaughterhouses of all sizes in the same way for control purposes. They allow Member States to reduce the daily OV presence from full time where this can be justified on a risk basis, except in those poultry plants where plant staff (rather than Meat Inspectors) can assist the Official Vet with inspection tasks. Regulation 854/2004 also allows qualified veterinarians who have not completed all the training required to be an OV to carry out Official Controls in low throughput slaughterhouses.

²⁶ Defined as those killing less than 1,000 livestock units or 150,000 birds a year.

Cutting plants

7.5 Under Regulation 853/2004, establishments that cut meat for the wholesale trade are required to be approved by the Competent Authority as “cutting plants” and, as such, require regular, risk-based auditing by an OV. A major change is that this includes “catering butchers” (butchers supplying restaurants, canteens etc.) who had been exempt under the previous regulations. There is an exemption from this regime for those businesses where the wholesale supply is a “marginal, localised and restricted” activity. These terms have been interpreted as follows:

Marginal

7.6 Regulation 853/2004 defines marginal as “a small part of the business” and the UK has interpreted this to mean up to a quarter of the business in terms of food value or amount.

7.7 European Commission guidance has provided an alternative interpretation of marginal as “a small amount of food of animal origin in absolute terms,” intended to exempt retailers who produce small quantities in absolute terms but mostly for wholesale. The UK has interpreted “a small amount” as “up to 2 tonnes per week of fresh or processed meat, excluding wild game meat”. To benefit from the exemption, establishments must also have an element of retail to the final consumer.

Localised

7.8 The UK has interpreted “localised” as meaning supplying “the establishment’s own county plus the greater of either the neighbouring county or counties or 30 miles/50 kilometres from the boundary of the establishment’s county”.

Restricted

7.9 In relation to fresh or processed meat, the UK is not applying any further restrictions than “marginal” and “localised”, as defined above.

7.10 Under previous legislation, there was a distinction between full throughput and low throughput cutting plants. In full throughput plants, an OV had to make daily checks on the operators’ controls. In low throughput cutting plants, checks were “regular” rather than daily and could be carried out either by an OV or a Meat Inspector. Of the 682 cutting plants currently operating (including those co-located with a slaughterhouse), 310 were licensed as “low throughput²⁷” under the previous legislation.

7.11 During the negotiation of the regulations, the UK argued that the qualifications of EHOs were entirely appropriate to the tasks of audit and enforcement in cutting plants and there was no public health

²⁷ Defined as cutting less than 5 tonnes of red meat or 3 tonnes of poultry meat per week

justification for requiring veterinary audit in such plants, whatever their size. However, the UK's negotiating line was unsuccessful.

- 7.12 The requirement for Official Veterinary control in cutting plants reflects the fact that, in most EU Member States, veterinarians routinely carry out Official Controls in all premises producing food of animal origin. In the UK, many of these tasks have traditionally been undertaken by Environmental Health Officers (EHOs).

Enforcement responsibilities

- 7.13 Under the current arrangements, approved slaughterhouses and cutting plants subject to Official Veterinarian audit are controlled by the Meat Hygiene Service (MHS) and establishments where audits may be carried out by non-veterinarians are controlled by local authorities. These include establishments producing food other than meat based food, exempt poultry and rabbit slaughterhouses, exempt cutting plants (e.g. butchers' shops) and establishments that store or further process meat, such as minced meat, meat preparations and meat products establishments. However, to avoid dual responsibility at the same site, where an establishment that would normally be under local authority control is co-located with an approved slaughterhouse or cutting plant, the entire site falls under MHS control, unless non meat based products are also being produced, in which case the local authority would retain a role.

Cost of inspection

- 7.14 Regulation 882/2004 requires Member States to charge for Official Controls at approved slaughterhouses and cutting plants. Most plants are charged on a headage or throughput basis, paying a fixed fee per animal slaughtered or per tonne of meat processed.
- 7.15 Low throughput and geographically remote plants, while often essential to the local economy, present particular staffing challenges to the MHS in delivering Official Controls. These include irregular hours and days of operation, slow line speeds and often long distances from where most MHS staff are based. As a result, the cost of inspection, when expressed in cost per animal or bird, is many times higher than at larger slaughterhouses and the subsidy that the operators receive is many times greater. For example, in the poultry sector, the average cost of delivering Official Controls in the lowest throughput slaughterhouses is 51.8p per bird while in the largest plants it works out at 0.9p per bird. Under the current system of headage charges, the MHS would charge both plants 0.68p per bird.
- 7.16 In approved cutting plants, the problem of cost differential is less severe, as the plants pay only for audits which are carried out at a risk-based frequency and there is scope for the Competent Authority to extend the interval between audits for those plants that comply fully with the regulations by maintaining high standards.

Options for varying Official Controls in low throughput premises

7.17 In establishments with a low throughput or in a remote location, there is scope within the regulations further to vary the intensity of Official Controls and to change whether plants fall under OV or EHO control. This can be done through extending UK guidance or by applying national measures, as provided for in Regulation 854/2004 for low throughput premises. The object of both approaches, which are compatible, would be to reduce the costs of providing Official Controls in low throughput premises where risks are judged to be low. It is important to emphasise that there is no question of reducing the extent or intensity of Official Controls in plants, however small or remote, where the Competent Authority is not satisfied with the levels of compliance, the standards of the FBO's controls and the management of risk. These are assessed at every audit and should standards of compliance be found to slip in any plant, then the level of Official Controls would be adjusted to that necessary to ensure the safety of meat or the health and welfare of animals.

Slaughterhouses and game handling establishments

7.18 **Farmers producing small quantities of poultry and rabbits:** Regulation 853/2004 allows Member States to exempt farms supplying small quantities of poultry and rabbits directly to the final consumer or local retailers from the need for approval. In guidance the UK has defined small as less than 10,000. This figure came from the previous EU Directive (71/118), is clearly not risk-based and could be removed, given the new safeguard that limits the exemption to local sales and therefore short food chains. Removing the 10,000 limit would remove a few premises from the need for OV control under the MHS and they would revert to local authority supervision. Currently, the subsidy for MHS meat inspection charges at these plants is close to 100% while the local authority would not incur substantial additional costs as the official ante and post-mortem inspection controls would be replaced by a risk-based audit and the operator would ensure that carcasses were fit for human consumption.

7.19 **Low throughput slaughterhouses:** Many smaller slaughterhouses only operate one or two days a week and kill young animals or birds from known local farms to produce meat for retail in local shops, including farm shops and farmers' markets. In such cases, public health risks are usually low and the food chain is very short, making traceability easier. For those reasons, the FSA Board has agreed (Board Paper FSA 06/03/04) to seek national measures in Brussels to allow ante-mortem inspection in these slaughterhouses by a Meat Inspector rather than an OV, with the inspector calling in an OV to carry out a clinical ante-mortem inspection if any abnormality is seen. This measure has not yet been notified to Brussels and consideration could be given to extending the scope to allow ante-mortem inspection to

take place at markets by veterinarians carrying out inspections on behalf of Agriculture Departments. This could provide adequate control more efficiently in the UK situation, provided there was good traceability between the market and the slaughterhouse. For small poultry producers that do not rear their own birds the FSA Board also agreed a national measure should be sought to allow trained plant staff to carry out post-mortem inspection in low throughput poultry slaughterhouses without the permanent presence of an OV. This is under discussion with the Commission.

- 7.20 **Game handling establishments:** When the FSA Board agreed the measures described in paragraph 7.19, they also agreed that the UK should notify to the European Commission a national measure for a pilot project for game handling establishments. This would allow the operators of game handling establishments, producing up to half a tonne of game meat for the local market, not to be subject to Official post-mortem inspection, but to ensure the safety of their product themselves. This notification has been accepted and plans are being made for the implementation of the pilot. We expect it to be fully operational by the beginning of the 2008 shooting season i.e. 1st September, and to involve up to 50 plants.
- 7.21 **Levels of OV input:** Regulation 854/2004 allows Member States to reduce the full-time presence of an OV at slaughterhouses and game handling establishments on a risk basis where Official Auxiliaries (Meat Hygiene Inspectors) are carrying out routine post-mortem inspection. The MHS currently has a project in place which is trialling criteria proposed by the Commission on how to assess risk. It would appear from the trial that these criteria are too restrictive and they would only provide flexibility in slaughterhouses practising discontinuous slaughter.
- 7.22 **Permanent MHS presence:** Prior to the BSE epidemic, ante-mortem inspection was carried out at the beginning of the day and post-mortem inspection could be carried out 'cold' at the end of the day, meaning that OVs or Meat Inspectors were not present all day during slaughter. From 1996, MAFF (later FSA) instructions to the MHS required Meat Inspectors to be present at all times during slaughter to supervise the removal of Specified Risk Material (SRM) from carcasses. The FSA Board will consider proposals to make SRM controls more risk based in parallel with this Review.
- 7.23 **A role for local authorities:** In slaughterhouses, as opposed to cutting plants, there is limited scope for Environmental Health Officers to play a role in delivering Official Controls. They do not have the clinical skills to carry out ante-mortem inspection of animals or the necessary training and experience for post-mortem inspection of carcasses. Since the control of slaughterhouses passed from local authorities to the MHS in 1995, training for EHOs in practical meat inspection has been greatly reduced. Recently qualified EHOs are not trained to the level required to act as Official Auxiliaries (Meat Inspectors). However, our research has suggested that there are some low throughput, geographically remote slaughterhouses where the local authority could

take on responsibility for delivering Official Controls efficiently and effectively using local resources. These might include their own staff, where they are or can be sufficiently trained, local veterinary practitioners, who have undergone some basic training but not the residential training required to become fully fledged OV's and locally resident active or retired Meat Inspectors.

- 7.24 **The FSA role:** In view of the sensitivities around the operation of slaughterhouses, including animal health and welfare, as well as public health issues, the FSA, as Central Competent Authority, should retain its control over standards at all slaughterhouses, including low throughput plants, so that it can provide the necessary assurances to Agriculture Departments and the FVO. Hence, even where a local authority takes on responsibility for delivering Official Controls as described above, it should do so under contract to the FSA, who would remain the Competent Authority, responsible for approval and enforcement, including suspension of the operating licence if required. In this way, the FSA could ensure, through a series of risk-based audits, that the inspection tasks are being carried out to the necessary standards and that the operator's controls are fully compliant.

Cutting Plants

Plants cutting less than 2 tonnes of fresh meat

- 7.25 The UK's interpretation of "marginal" and "local", described above, has largely resulted in a series of proportionate, risk-based rules for Official Controls in cutting plants. However, a few anomalies have arisen where the strict application of these rules would result in the need for approval (and hence veterinary audit) where this might not be justified on the grounds of risk or proportionality in relation to the enforcement authority to be employed:

- One concerns the smallest catering butchers, who have no facilities for supplying the final consumer and hence no way to avoid the need for approval. A change to our guidance removing the requirement for a retail element would exempt all cutting plants wholesaling up to 2 tonnes of fresh meat per week from approval, and would reflect the fact that having or not having a retail element has no impact on public health risks. The premises would still have to comply with the same structure and hygiene rules, and be subject to audit at a risk based frequency, but would be registered rather than approved. Premises without a genuine retail element producing other products, including mince, meat preparations and meat products would still require approval. The EU guidance accepts that the element of retail may be small but nevertheless there would be a risk of challenge by the European Commission. This proposal, which would require consultation, would result in about 50 catering butchers remaining under local authority control and some 164 cutting plants currently under MHS control being able to transfer to local authorities. There may however be legal

issues to address with this approach, and these would need to be considered before proceeding.

- Another concerns establishments where cutting for wholesale is a small part of the operation. The main activities may be the production of non-meat based food, further processing of meat, or storage. Having to approve such establishments as cutting plants can lead to inefficient dual enforcement by both the MHS and the local authority; high risk operations, such as the production of ready meals, being controlled by the MHS, even though the real expertise and experience lies with the local authority EHO; and disruption of local control over food production. If the amount of meat cut for wholesale was under 2 tonnes per week, the establishment could be considered not to need approval for cutting on the basis that it is only a small element of the total food of animal origin supplied.

Low throughput cutting plants

- 7.26 If it were agreed that cutting plants producing less than 2 tonnes of fresh meat a week should be exempt from approval, there would still remain a significant number of cutting plants, including catering butchers, that would cut less than the previous low throughput limits, but would require approval and therefore veterinary control, while, in reality, risks will not have changed. The MHS may find it more difficult and more expensive to provide audit visits to such premises than the local authority.
- 7.27 More flexibility could be achieved by applying to the EU Commission for a national measure to allow audit in these low throughput plants to be carried out by either EHOs or OVAs. The FSA could retain responsibility for approval, to ensure consistency of standards, but audits could be made by either the MHS or local authority, as appropriate for local circumstances. This would allow some 46 catering butchers and 146 previously licensed cutting plants, not attached to slaughterhouses, to be controlled by either the MHS or the local authority, and open up the way for the MHS and local authorities to make local deals to share responsibilities and tasks on a sensible and efficient basis. This type of approach could also be considered for the small catering butchers discussed above in paragraph 7.25 if it is not possible to remove the requirement for a retail element and thereby exempt them from approval.

Cost and charging implications in cutting plants

- 7.28 Under EU law, the Competent Authority must make a charge for carrying out Official Controls in approved premises. There is no requirement to charge for any controls that local authorities undertake in non-approved plants, although, were a cutting plant to transfer from MHS to local authority control, the local authorities could charge if they wished.

- 7.29 Currently, the charge that the MHS makes for Official Controls in low throughput cutting plants recovers only a small percentage of their costs. This is because the Maclean²⁸ charging system allows a plant to pay the lower of the throughput or the actual (time-based) cost. As an illustration, the annualised data for April to June 2006 suggests that the 164 approved cutting plants with a throughput of less than 2 tonnes per week paid a total charge of £7,100 towards MHS time-based delivery costs of £142,000. This represents a recovery rate of some 5%.
- 7.30 Where a low throughput cutting plant remains subject to approval but, by agreement, moves to local authority control and EHO audit, the local authority could make the charge. In order to be fair and equitable, this charge should be calculated on the same basis as for other plants remaining under MHS control. Again as an illustration and using the same data as above, the 146 plants with a throughput of between 2 and 5 tonnes per week faced a total charge of £23,600 against a total time cost of £152,900, a recovery rate of 15%.
- 7.31 It can be seen that the charges to low throughput plants are significantly less than full costs. This is likely to continue under any new charging system, given the need to have regard to vulnerable plants when setting charging rates. It follows that a local authority taking over the delivery of controls may not be able to recover its full costs and would look to the FSA to make up the difference, much as happens now with the MHS. It follows that there would only be a financial advantage in moving approved plants from MHS to local authority control, if the local authority could carry out the controls at lower cost than the MHS. Under these circumstances and where a local authority is able to make flexible use of local staff (practice vets, EHOs and MHIs) it would make sense for the FSA to contract the local authority to carry out Official Controls, with the Agency remaining responsible for charging.

RECOMMENDATIONS

- 7.32 In order to provide the most cost effective, risk based and proportionate controls at low throughput premises, we recommend that:
1. The FSA should open up the possibility for local authorities, under contract, to deliver Official Controls in approved, low throughput meat premises where this is agreed with the Food Business Operator and there is a sound business case for doing so.
 2. On request, the MHS, with the local authority and Food Business Operator, should review the delivery of Official Controls at low throughput slaughterhouses and cutting plants to determine the most effective and efficient means of delivery and should make proposals for change as appropriate.
 3. The FSA should, by the end of 2007, make any necessary changes to UK guidance and propose national measures to the

²⁸ The Meat Inspection Charges Task Force (June 2000).

European Commission with a view to putting in place proportionate, risk-based and cost-effective Official Controls in low throughput slaughterhouses and cutting plants.

CHAPTER 8: FOOD BUSINESS OPERATOR RESPONSIBILITY – POULTRY SECTOR

Recommendation

8.1 The FSA and MHS should work jointly with the poultry industry to remove the barriers to the greater use of Poultry Inspection Assistants (PIAs) in approved UK poultry plants. This work should include proposals to co-ordinate the training of PIAs, including consideration of whether the FSA should provide financial support for such training to help build levels of FBO responsibility throughout the industry.

Background

8.2 As part of the wider Review of Delivery of Official Controls in Approved Meat Premises, we have looked at the use of Poultry Inspection Assistants (PIAs) in UK poultry plants. The objectives of this work were:

- To review, in partnership with the poultry industry, the current use of PIAs and identify the barriers to their wider use;
- To identify what incentives may be required to encourage more poultry FBOs to employ their own inspectors, where appropriate;
- To identify what actions would be required so that all Official Controls, other than those reserved for an OV, might be provided by PIAs

8.3 The work has been undertaken in consultation with the British Poultry Council (BPC), FBOs in the industry, the awarding body (Royal Society for the Promotion of Health) and the educational establishments providing PIA training, for example Easton College.

8.4 Poultry Inspection Assistants are trained poultry inspectors who assist the Official Veterinarian (OV) to carry out Official Controls in approved poultry plants. They operate under the supervision of the plant OV, who is supplied by the Meat Hygiene Service (MHS). The difference between PIAs and Meat Hygiene Inspectors (MHIs) is that PIAs are employed directly by the FBO while MHIs are usually employed by the MHS, although some are employed by independent contractors.

8.5 The use of PIAs rather than MHIs has been allowed under EU regulations since 1994²⁹. This derogation is currently limited to poultry plants, although there was a proposal to extend it to pig plants during the last round of negotiations on the EU regulations. This proposal was rejected by the European Parliament but the Commission has agreed to come back to the issue at a future date.

8.6 The use of PIAs within the poultry industry is an illustration of Food Business Operators (FBOs) taking active responsibility for compliance and the management of hygiene in their plants. As FBOs are legally

²⁹The Poultry Meat, Farmed Game Bird Meat and Rabbit Meat (Hygiene and Inspection) Regulations 1994

responsible for complying with regulations and for producing safe and hygienic products, employing PIAs is a way for them to demonstrate that they are taking their responsibilities seriously and could be trusted a bit more to produce safe food without constant supervision by government inspectors.

- 8.7 The British Poultry Council (BPC) is committed to ensuring that FBOs take their responsibilities for hygiene seriously and to working within the current regulations to ensure that FBOs are made fully accountable for their own performance. In addition, it is worthwhile remembering that the major multiple retailers also exert a powerful influence over the industry and provide FBOs with significant incentives to achieve the highest possible standards of both hygiene and product quality.
- 8.8 Hence, this work has looked carefully at how the use of PIAs might be extended more widely throughout the poultry industry. We have also tried to understand the issues that would arise were other parts of the meat industry eventually to be allowed under EU regulations to employ their own meat inspection staff.
- 8.9 The starting point is that FBOs must be free to make a business choice about whether to employ their own PIAs or to use Meat Inspectors provided by the MHS or other approved Delivery Partner. One of the problems with the present system is that, given that the MHS does not charge plants for their full costs, in effect they offer a subsidised inspection service and this can be a financial disincentive for plants to employ their own PIAs.
- 8.10 Another potential disincentive to employ PIAs is the cost of training, especially where staff trained by one FBO can move easily to another, who would then not need to bear the cost of training themselves. This is one area where there is good scope for a co-ordinated approach to training across the industry, facilitated by the BPC with FSA involvement as required.
- 8.11 Training PIAs is also likely to become more of an issue in future. Under a transitional measure in the EU Regulation, PIAs at present need only be trained for the tasks they perform. That means that they need only be trained in poultry post-mortem inspection. Unless there is a change in the EU legislation, from 1 January 2010, PIAs will have to receive the same training as Official Auxiliaries (Meat Inspectors), including livestock production, HACCP procedures, animal welfare and legislation. This would obviously increase the costs without any obvious benefit.
- 8.12 The use of PIAs in poultry plants is of interest for two main reasons:
 - Firstly it provides a model and some real experience of how meat inspection might evolve in future, given the necessary international and European agreements to adopt a more risk-based and proportionate approach genuinely based on FBO responsibility.

- Secondly, the use of PIAs not only cuts the overall costs of inspection but places a majority of those costs directly on the FBO as a cost of doing business. An increase in the use of PIAs in plants currently not using them creates a good opportunity to reduce the overall costs of inspection while safeguarding standards through retaining independent OV supervision.

MHS activity in poultry plants

8.13 It is important to stress that the use of PIAs by a food business does not imply that all external, independent inspection comes to a halt. All approved poultry plants still require supervision by an OV, who is usually on site all the time the plant is operating. Further, where plants employ their own PIAs, it is usual for the MHS to provide Poultry Meat Hygiene Inspectors (PMHIs) to work alongside the OV, assisting with routine duties and helping to supervise the PIAs. The OV has a key role to agree with the FBO the numbers of PIAs and how they can be most effectively deployed.

Finances and Charging - UK Poultry Plants (2005/6 MHS data)

8.14 The industry is highly concentrated:

- The largest plant processes more than 10% of national throughput (790 million birds per year).
- Eight plants account for almost half of national throughput.
- Half of the plants process only 1.1% of national throughput.

8.15 The decision to hire PIAs seems to be influenced positively by the size of the business. However, even among micro plants nearly half of them have decided to use PIAs.

8.16 MHS costs are unequally distributed among plants. The cost per bird of delivering Official Controls decreases dramatically with throughput. For instance, the average cost of Official Controls in a micro plant is more than 50 pence per bird compared with less than a penny per bird in a large plant.

8.17 Among micro and small plants, only one of 25 FBOs that use PIAs is charged a positive amount by the MHS for inspection. The others all have a zero charge because the costs to them of employing PIAs is greater than their MHS charge based on throughput. All these businesses are financially worse off as a result of using PIAs rather than the MHS. This suggests that the financial disincentive to use PIAs is much stronger for smaller plants than for larger ones.

8.18 Table 8.1 shows the detailed analysis undertaken by the FSA's Economist team.

Table 8.1 Summary of 2005/6 MHS Data on Poultry Plants

	Plant Type				All (n=112)
	Micro (n=28)	Small (n=28)	Medium (n=28)	Large (n=28)	
Throughput (thousands of birds)					
Total	742	8,025	79,917	700,123	788,807
Average per plant	26	287	2,854	25,004	7,043
Share of throughput	0.1%	1.0%	10.1%	88.8%	100.0%
Share of plants	25%	25%	25%	25%	100%
MHS costs					
OVs (£000s)	12	10	60	184	266
Contract OVs* (£000s)	332	714	1,381	2,836	5,262
Inspectors* (£000s)	41	187	1,002	3,120	4,350
Total (£000s)	384	911	2,443	6,140	9,878
Average per plant (£000s)	14	33	87	219	88
Average per bird (pence)	51.8	11.4	3.1	0.9	1.3
PIAs					
Number of plants with PIAs	12	13	17	21	63
Total PIA cost (£000s)	130	264	697	2,573	3,664
PIA cost per plant (£000s)	5	9	25	92	33
PIA cost per bird (pence)	17.5	3.3	0.9	0.4	0.5
MHS + PIA costs					
Total (£000s)	514	1,175	3,139	8,713	13,542
Average per plant (£000s)	18	42	112	311	121
Average per bird	69.3	14.6	3.9	1.2	1.3
MHS Charge					
Total (£000s)	7	40	274	2,635	2,958
Average per plant (£000s)	0.3	1.4	9.8	94.1	26.4
Average per bird (pence)	1.0	0.5	0.3	0.4	0.4
# plants charged time cost	0	0	0	0	0
# plants charged £0	11	13	10	2	36
Industry subsidy					
Total (£000s)	377	871	2,169	3,505	6,921
Average per plant (£000s)	13	31	77	125	62
Average per bird (pence)	50.8	10.9	2.7	0.5	0.9
Share of MHS cost	98%	96%	89%	57%	70%
Share of MHS + PIA costs	73%	74%	69%	40%	51%

* These quantities are only estimates.

The costs to industry of employing PIAs is around £3.7 million while MHS costs for the poultry industry are some £9.9 million. The MHS recovers £3m in charges from the poultry industry, meaning that the difference of £6.9m (£9.9m - £3m) amounts to a subsidy to the poultry industry. This subsidy

represents around 70% of total MHS costs and 51% of the total cost (MHS + PIA costs) of Official Controls in poultry plants.

- 8.19 At present, the MHS charges all UK poultry plants an inspection fee based on their throughput. Those plants that use MHS staff pay the entire throughput charge. Those plants that employ their own PIAs are allowed to offset the costs of PIAs time (salaries, additional staff costs) against the throughput charge. Some of these plants pay nothing because their PIA allowance is greater than their calculated throughput charge.
- 8.20 Unsurprisingly, this arrangement is not good for MHS finances. As we have seen above, the MHS throughput charge on average recovers only about 30% of their real costs of delivering Official Controls to the UK poultry industry. Another way of looking at this is that, overall, UK poultry plants enjoy a 70% subsidy towards the costs of the MHS inspection service. The availability of this highly subsidised service provides no financial incentive for FBOs to employ their own PIAs. Further, MHS administrative and management costs are inflated by having to manage two charging systems for PMHIs and for PIAs.
- 8.21 Were any plant currently using PIAs to stop doing so, the MHS would be required to take over the provision of poultry inspection in that plant, with an immediate and detrimental impact on MHS finances. Without a significant increase in the costs of using MHS inspectors (as part of the wider move towards full cost recovery), FBOs that are currently not using PIAs are highly unlikely to change their behaviour and some might change from using PIAs to the MHS.
- 8.22 One of the reasons for this discrepancy is that the time cost charges applied by the MHS do not reflect their real costs because the changes to the charges have been constrained over the last 7 years. The estimated difference is currently around 25%. The MHS inspection charge is £20.80 per hour, the estimated real full-cost is estimated to be £25 per hour.

Industry use of PIAs

- 8.23 In November 2005, the MHS surveyed all 109 approved poultry slaughterhouses in GB. At that time, 63 (58%) were using PIAs, 11 were considering doing so and 4 had decided to stop using PIAs and return to the MHS. The current (2007) estimate is that there are still 63 poultry plants using PIAs, including 21 out of 28 (75%) large throughput plants. In January 2006, there were 517 FBO establishment staff working as PIAs in 71 poultry slaughterhouses.³⁰

Training of PIAs

- 8.24 Under the current EU Regulations, PIAs appointed after January 2006 are required to undergo formal training and to pass the same examination as Meat Hygiene Inspectors and can then carry out all the functions of a Meat Hygiene Inspector. There is however a transitional

³⁰ House of Commons, February 2006, questions to Secretary of State for Health (Annex D)

arrangement which allows them until the end of 2009 just to undergo the Official Auxiliary training required for the tasks they carry out, which is usually only post-mortem inspection. However even this represents a considerable increase in the previous standard under which plant staff were trained on the spot to undertake post-mortem inspection to the satisfaction of the OV³¹. The UK and some other Member States are pressing for the transitional measure to be made permanent.

- 8.25 The Royal Society for the Promotion of Health has developed a new structured syllabus for PIA training, which includes 100 hrs of theoretical and practical training, including post-mortem inspection. The training is available at 8 colleges but so far only 2 have run courses. However, this scheme does not produce PIAs that would meet the post December 2009 requirements. Further, the estimated cost of the course is £500 per employee and there is limited availability of training across the UK with no provision so far in Northern Ireland. Clearly, if the FSA worked in partnership with industry and the training providers the costs of the training can be reduced by volume purchasing.

Future Outlook

- 8.26 In the Financial Year 2005-2006, two FBOs (including one of the largest plants) stopped using PIAs and reverted to MHS inspection. Given the competitive nature of the industry, we can expect further reductions in the use of PIAs as December 2009 approaches, because:
- An increased training requirement will increase PIA training costs for businesses. Note that the increased training requirement coupled with a lack of availability is likely to lead to higher salary expectations for PIAs, with a consequently greater risk of staff turnover;
 - Without any change to the current charging framework, there will remain little incentive to use PIAs rather than the MHS.
- 8.27 However, despite this, it is unlikely that the number of FBOs using PIAs will fall to zero. Many have told us that they will continue to invest in PIAs because they prefer to run their businesses in this way rather than to rely on the MHS.

Financial implications

- 8.28 Given the important financial implications of possible increases or decreases in the use of PIAs, we have done some modelling that shows that:
1. Achieving wider PIA take up by FBOs has the potential to save the MHS some £4.3m per year, based on an additional 112fte PIAs working as Official Auxiliaries in UK poultry plants.

³¹ The Poultry Meat, Farmed Game Bird Meat and Rabbit Meat (Hygiene and Inspection) Regulations 1995

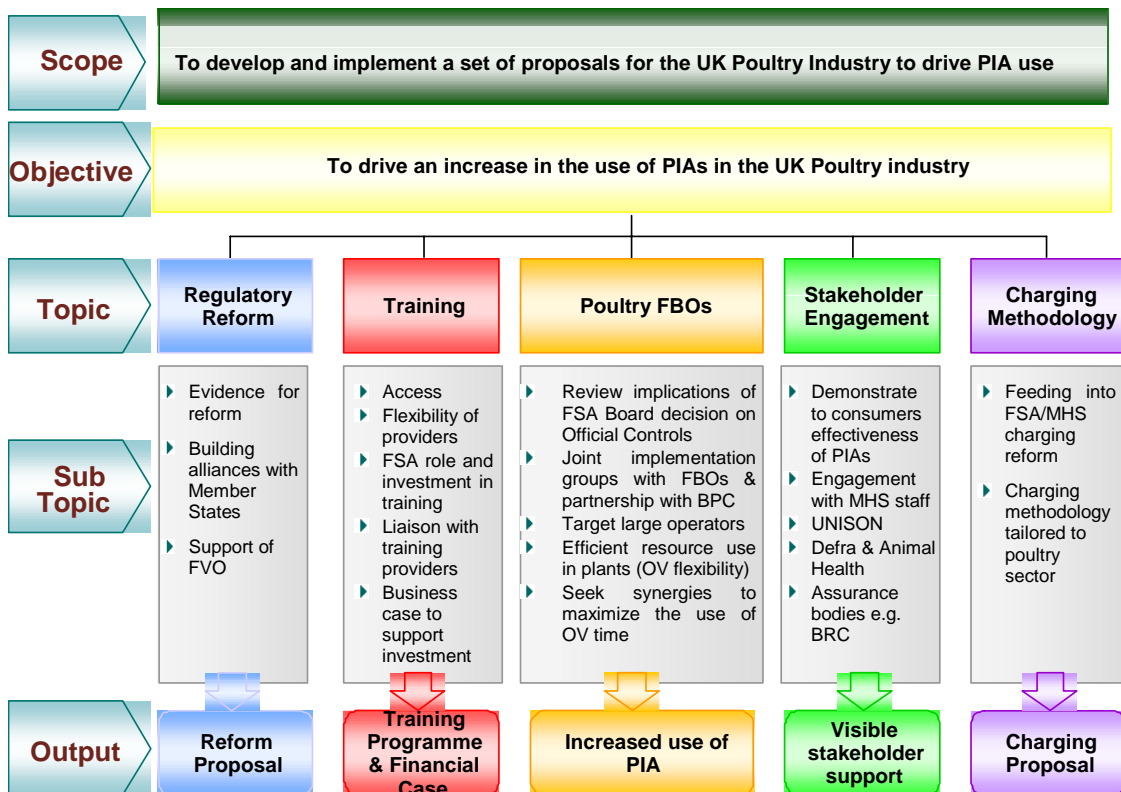
2. Conversely, were all FBOs to give up using PIAs and demand inspectors from the MHS, the additional costs to the MHS would be around £2.8m per year, increasing total costs to an estimated £12.8m.

8.29 In this context it is worth noting that, although the FSA has announced its intention to work towards full cost recovery for the delivery of Official Controls, the charging system to achieve this has not yet been agreed and FBO acceptance is still to be achieved. As a result, any decline in the use of PIAs or growth demands on the MHS is likely to have an immediate impact on FSA / MHS finances within the current Comprehensive Spending Review period.

Recommended Action

8.30 We recommend that the FSA, together with the BPC, FBOs and stakeholders, embarks on a joint project to address the issues undermining the use of PIAs. Given that December 2009 is near, this is considered to be a key project in the future delivery of Official Controls in the UK. One possible approach to the project is shown in the Figure 8.1 below³²:

Figure 8.1 Possible Approach to PIA Project



³² See Table 8.2 for an initial assessment of primary project risks

- 8.31 This project would recognise that FBOs are entitled to make a business decision about whether they prefer to supply their trained staff to carry out post-mortem inspection or use OAs from the MHS or alternative Delivery Partner. Nevertheless, for the reasons given above, the FSA should aim significantly to increase the take-up of PIAs where this is fully compatible with regulatory compliance, the health and welfare of poultry, the safety of poultry meat and maintaining consumer confidence.
- 8.32 Achieving an increase in the take up of PIAs is likely to require:

Reforming the current approach to charging

- 8.33 No significant increase in the use of PIAs is likely so long as a highly subsidised (and high quality) alternative inspection service is available from the MHS. FBOs will need to be liable for a much greater proportion of the real costs of service delivery by the MHS, while acknowledging the critical need for those overall costs to fall as part of the Transformed MHS change programme.
- 8.34 As part of the wider reforms of MHS charging (See Chapter 10 of this report), a revised approach to charging, tailored particularly to the poultry sector, needs to be identified, agreed and implemented. A key element of this will be scope for the FSA and/or the MHS progressively and sustainably to manage down the subsidy received by FBOs, subject of course to wider policy objectives, including appropriate treatment for low throughput plants.
- 8.35 An important part of the transition will be to continue to allow FBOs to offset their PIA costs against the time-based charges they incur. It is also clear that any new approach to charging must be both transparent and fair to all plants, as well as being simple and efficient to calculate and collect.

Encouraging the training of PIAs

- 8.36 This has two main parts:
- Immediate action in partnership with industry organisations and training bodies to ensure the necessary training is available, accessible and affordable to sustain the current levels of PIAs.
 - Using the knowledge acquired with this group to build a training package that meets the needs of FBOs not currently using PIAs and their staff.
- 8.37 An important element in this training package will be a clear commitment by FSA to seek a change in EU legislation to prevent the imposition of new training standards unrelated to the needs of PIAs and the tasks that they are required to carry out in approved poultry plants.
- 8.38 By supporting high quality PIA training and encouraging wider take up, the FSA will be helping to increase knowledge of poultry hygiene and so drive up standards in those parts of the industry not already

committed to taking on this responsibility. This is an important, if intangible, benefit of this proposed approach.

Estimated training requirement and possible costs

- 8.39 The number of PIAs that will require training obviously depends on the number of FBOs that decide to move to using PIAs. There is no easy way to estimate this with the data currently available.
- 8.40 However, if we assume for the sake of illustration that all the currently approved poultry plants were to decide to use PIAs rather than MHS poultry inspectors, we estimate that some 200 new full time PIA posts would be required to be filled³³. If we also assume that, for every PIA required, a typical FBO will want a second, trained PIA as cover (again perhaps an overestimate), a maximum of 400 PIAs will need to be trained.
- 8.41 As the typical cost of providing a course is £500 per person, the estimated total training costs is some £200,000. Putting this into perspective, the additional cost to the MHS of taking over all the inspection currently done by PIAs would be some £2.9m.

Potential impacts on FSA and MHS

MHS staffing

- 8.42 If the FSA decides to incentivise the take up of PIAs as suggested, there would clearly be implications for the MHS. For example, those MHS inspectors currently working in poultry plants would need to be redeployed. There are currently 57FTE staff working for the MHS as Senior Poultry Meat Hygiene Inspectors or Poultry Meat Hygiene Inspectors, together with an additional 57FTE dual qualified inspectors carrying out inspection activity in the poultry sector.

FBO Performance Management

- 8.43 A key issue for the FSA if the role of PIAs is developed further will be assuring the quality and consistency of inspection through the audit of FBOs and performance management of PIAs. This will become a priority for the proposed new Veterinary Meat Hygiene and Official Controls Delivery Division, who would have the responsibility for verifying standards, approving plants and enforcement, including suspending a plant's operating licence where necessary.

OV Flexibility and Decision-Making

- 8.44 The OV has a key role in an approved meat plant and the responsibility to ensure that the Official Controls are being properly delivered, whether by MHS staff or by PIAs. It follows that an important part of the successful use of PIAs will be to review how OV time can be used most

³³ Given that the PIAs will be deployed on other plant duties when not performing Official Controls, this could well be an overestimate.

effectively in all plants. There is a review of this currently underway in the MHS and this project will need to be fully aligned with it³⁴.

Risk Management

8.45 The main risks of the proposed PIA project are set out in the table below, together with proposals to manage them.

Table 8.2 PIA Risks & Proposed Risk Management Strategies

Risk	Management
The EU regulation is not reformed to keep the training requirement reasonable and proportionate.	<ul style="list-style-type: none"> • FSA to prioritise in discussions with the Commission and other Member States; • Build in contingency to the project concerning extra costs of training if required; • Use investment in training to drive an ongoing improvement in standards; • PIAs trained as full Meat Inspectors could be a useful resource for the Transformed MHS or Delivery Partners in the future.
Industry is unwilling to invest in the PIA capability required.	<ul style="list-style-type: none"> • Take forward project jointly with the BPC and industry; • New charging mechanism removes financial disincentive; • Commercial service provided by TMHS and/or Delivery Partner.
With PIAs rather than MHIs, the Competent Authority has less effective control over FBOs to maintain standards and to respond to national emergencies.	<ul style="list-style-type: none"> • FSA Veterinary Meat Hygiene and Official Control Delivery Division to carry out effective risk-based audit of plants using PIAs; • OV in poultry plant remains responsible for delivery of Official Controls; • FSA and partners, including FBOs, to prepare plans for dealing with national emergencies and clarify the potential role of PIAs (if any).
The public and consumers perceive an increased risk from the use of PIAs and confidence is reduced.	<ul style="list-style-type: none"> • Project to gather and publicise more evidence from the plants already using PIAs about standards; • Actively build public awareness of and confidence in FSA audit of plant standards and FBO controls. Be open with the performance evidence; • Actively engage stakeholders in the development and implementation of the project.
FSA funding is not available to support PIA training and to invest in the transition.	<ul style="list-style-type: none"> • Project does not proceed unless there is a financial case and invest to save gains; • Phase the transition to reduce costs.

³⁴ MHS OV Flexibility project led by Mike Eyres.

<p>FBOs do not support changes to the current charging system.</p>	<ul style="list-style-type: none">• Engage FBOs and the BPC in charging reform;• Ensure that new system is fair, transparent, cost effective to implement and includes appropriate incentives;• Aim that increases in charges will be matched by improvements in quality of services.
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CHAPTER 9:

WORKING MORE CLOSELY WITH ANIMAL HEALTH³⁵

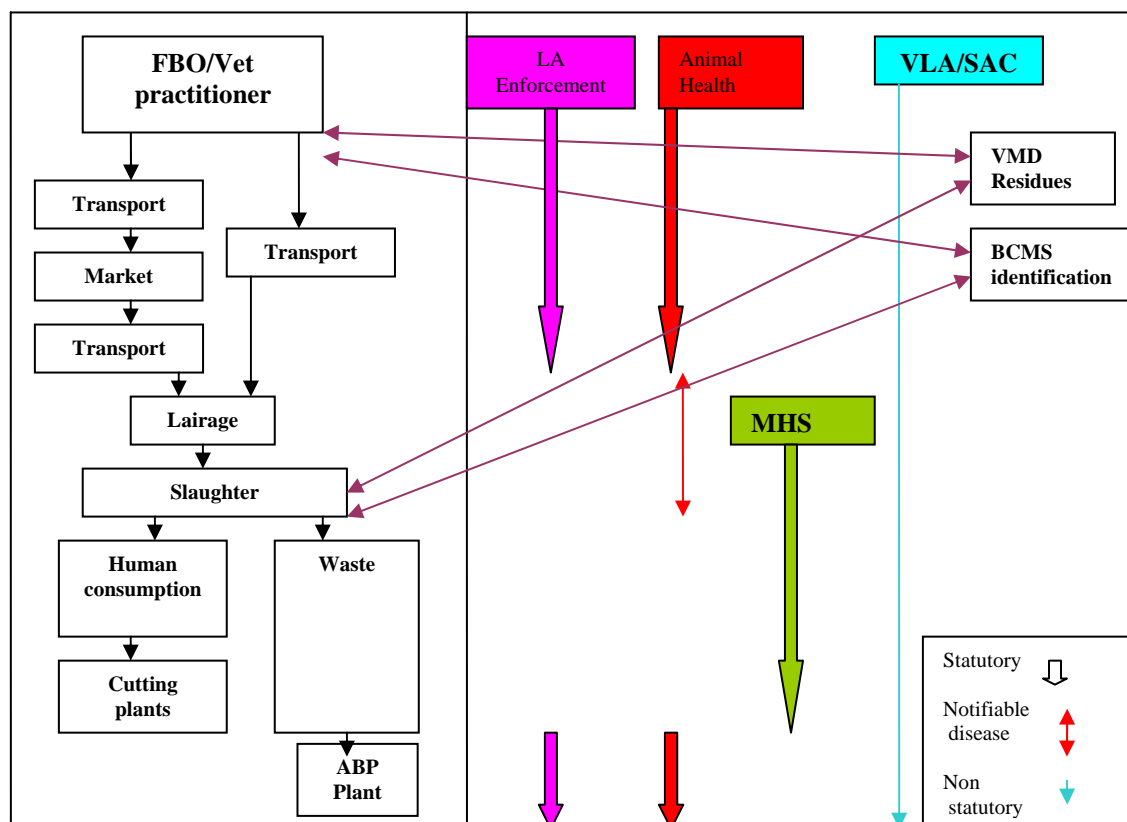
The Landscape of Veterinary and other Agencies

- 9.1 At its meeting in February 2007 the FSA Board asked that any proposals for the delivery of Official Controls at meat plants should be compatible with the future goal of a single veterinary service operating both on farm and in meat processing plants. In the meantime initiatives should be put in place for the MHS to work more closely with Animal Health. Discussion with Defra and Animal Health has confirmed a willingness for closer working, but acceptance that both Animal Health and the MHS need to evolve before consideration could be given to amalgamation.
- 9.2 Veterinary Official Controls over the production of animals and animal products involve three main areas of focus:
- Public Health: ensuring that meat and other products of animal origin are produced according to regulations and are safe to enter the food chain
 - Animal Health: ensuring that diseases of production animals are controlled and where possible eradicated.
 - Animal Welfare: ensuring the welfare of production animals is protected.
- 9.3 The FSA is the UK Central Competent Authority for food safety and retains the role of Competent Authority for meat hygiene. The Agency itself approves slaughterhouses and cutting plants, on the advice of Veterinary Meat Hygiene Advisers, who are either members of Meat Hygiene and Veterinary Division or the Agriculture Departments of Scotland and Wales. It also audits the performance of the Meat Hygiene Service and local authorities. The day to day Official Controls in meat plants are carried out by the Agency's Meat Hygiene Service (MHS), acting on behalf of the Agency for public health controls and on behalf of the Rural Affairs Departments (Defra in England, The Rural Directorate of the Scottish Executive and the National Assembly in Wales) for animal health and welfare controls.
- 9.4 There are other agencies that work, along with veterinary practitioners and local authorities, in the production of food of animal origin. These are:
- Animal Health
 - Veterinary Laboratories Agency / Scottish Agricultural Colleges in Scotland (VLA / SAC)
 - The Veterinary Medicines Directorate (VMD)
 - The British Cattle Movement Service (BCMS)

³⁵ This chapter includes material from a report commissioned from Jim Scudamore, former CVO. The Review team would like to thank Jim for his input to the Programme.

9.5 The responsibilities and relationships are summarised below.

Figure 9.1 Responsibilities & Relationships of Organisations Involved in the Production of Food of Animal Origin



- 9.6 Animal Health (formerly the State Veterinary Service) is concerned with the control of notifiable animal disease along the entire food chain and animal welfare on farms, at markets and during transport. Its remit has also recently been extended to carry out dairy farm hygiene and egg marketing inspections on behalf of the FSA.
- 9.7 The Veterinary Laboratories Agency (VLA) supports the veterinary practitioner with non-statutory controls of animal disease, including zoonoses³⁶ and supports the FSA in investigating risks to food safety on farms. It is also the reference laboratory for tests on notifiable disease.
- 9.8 Veterinary Medicines Directorate is responsible for the licensing of veterinary medicines and the surveillance of animals and animal products for residues of substances such as pesticides and veterinary medicines.
- 9.9 The British Cattle Movement Service is responsible for cattle identification and maintaining a cattle identification database.

³⁶ Diseases transmissible from animals to man

Enforcement

9.10 Enforcement of Official Controls, everywhere except in slaughterhouses and cutting plants, where the Food Standards Agency carries out its own enforcement through the MHS, is carried out by local authorities. On farms this is usually carried out at County level by Trading Standards Officers acting on behalf of Agriculture Departments for animal health and animal welfare and on behalf of the Agency for food hygiene legislation. In food processing plants it is usually Environmental Health Officers of district councils that enforce food safety legislation.

Official Veterinarians

9.11 Official Veterinarians (OVs) are qualified veterinary surgeons designated by Competent Authorities to carry out frontline Official Controls. Differently trained OVs act for the MHS, local authorities with responsibility for Border Inspection Posts and Animal Health. The MHS usually sources their OVs under contract from specialist veterinary practices who in turn mostly recruit veterinary graduates from other Member States. By contrast, to carry out its frontline work, Animal Health tends to use local veterinary practitioners whose main employment is providing veterinary services to farmers. This difference in recruitment practice has, over time, led to increasing separation between these two types of veterinary work. Fewer and fewer local practice veterinarians are contracted to work in meat plants (although the MHS does use them in some places where it is economical to do so). Similarly, many of the OVs contracted to work in slaughterhouses have little direct experience of farm animal practice. This lack of first-hand clinical experience is a matter of concern, given that it is precisely because a qualified veterinarian is expected to have such experience that their near permanent presence in slaughterhouses is required by EU legislation.

The Issues

9.12 Given the number of agencies, the separation of responsibilities and functions and the rather crowded delivery landscape, we have looked into potential overlaps or gaps in veterinary controls across the food chain from farm to fork. We have found that the separation of functions seems not to have resulted in much overlap of responsibility or activity, except in the collection of samples at slaughterhouses, but has led to a reduction in regular contact between veterinarians working for the different agencies compared with the past.

9.13 These findings are not new. The Eves Report for Defra³⁷, the response to which is currently out for consultation, found a need both for communications between Defra and frontline MHS staff to be improved and the professional development of those MHS staff to be developed.

³⁷ Review of the Animal Health and Welfare Delivery Landscape June 2006

Overlaps

- 9.14 Although we found that overlap of responsibility is not a hugely significant issue, Animal Health still visits slaughterhouses to collect samples, despite MHS staff being permanently present there and the MHS Official Veterinarian being legally responsible under Regulation 854/2004 for the collection of official samples, such as samples taken at post-mortem inspection from reactors to the tuberculin test.
- 9.15 This seems to be an ongoing issue. For example, Defra's 2007 Avian Influenza survey will require the collection of samples at slaughterhouses. This is to be carried out by Animal Health technicians, even though poultry slaughterhouses have a permanent MHS presence during slaughter. Our understanding is that the reasons for this duplication relate both to trust and cost.
- 9.16 On farms overlaps do not occur, even though ante-mortem inspection can be carried out at poultry and fattening pig farms rather than the slaughterhouse. On farm inspection is common in other Member States, but is not practised in the UK, except for some farmed game, and the industry would be reluctant to allow such inspections to take place for bio-security reasons. The MHS, therefore, does not operate outside of meat plants. However, the limitations of an ante-mortem inspection carried out at one moment in time, even with food chain information provided by the producer, is being increasingly recognised. Legislative changes are needed to rely more on guarantees on the overall health of herd or flock, given under veterinary responsibility, to provide better safeguards. In the meantime some efficiency savings might be made by seeking a national measure to allow veterinarians carrying out market inspections for Agriculture Departments to carry out ante-mortem inspections at markets. This may be particularly useful for smaller slaughterhouse operators.

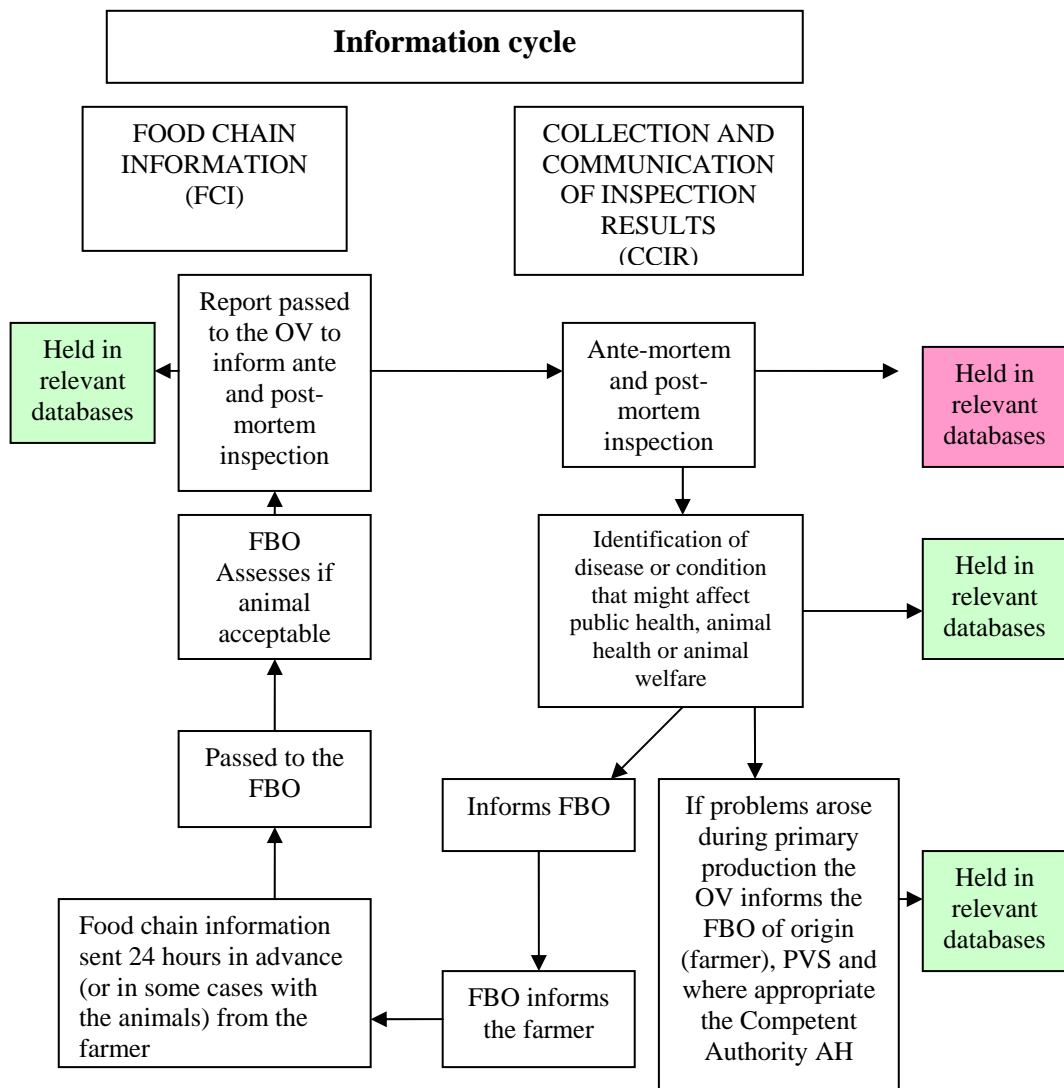
Sharing information and the information cycle

- 9.17 Proper management of the interfaces between the different agencies is important so that information can flow freely between them to promote public health and animal health and welfare. This has become a particular issue since the EU has moved to a more holistic, farm to fork approach for Official Controls rather than the previous series of more specific, vertical Directives, and with increasing concern over exotic animal disease.
- 9.18 For example, recognising the limitations of ante and post-mortem inspection in controlling risks to public health, the new EU regulations require slaughter animals to be accompanied by food chain information. This information is designed to guarantee that the animals concerned were produced in accordance with the rules applying to primary production on farms. Although these rules are enforced by local authorities, veterinarians visiting farms, whether from local veterinary practices, Animal Health or the VLA/SAC, need to be familiar

with the legislation so that they can advise primary producers accordingly. Many of these veterinarians are not familiar with food safety legislation and are not well placed to assist farmers, who need help to make the culture change required by the new Regulations, which have introduced food safety legislation on to farms for the first time. Farmers must understand that they are producing animals for food production rather than animals just for sale.

- 9.19 The following diagram illustrates the information flows that Regulations 853/2004 and 854/2004 have introduced to reduce the risk of animals being presented for slaughter carrying food safety hazards, and provide feed back to improve the health and welfare of animals on farm.

Figure 9.2 Information Flows



- 9.20 As every animal or flock going for slaughter is subject to ante and post-mortem inspection, the MHS is well placed to collect a lot of valuable information about the health and welfare conditions of animals and

birds. The data gathered from these findings are not only of use to individual farmers, but could contribute to the GB Surveillance Strategy to provide an oversight on disease prevalence and trends in the national herds and flocks and inform, and measure the success of, Defra's Animal Health and Welfare Strategy. There is great potential to use this information more extensively to improve public health and animal health and welfare. Presently, there is limited use of this information, mainly due to questions about its accuracy and reliability and the lack of compatible IT systems that would promote information sharing. MHS has a project currently scoping all its IT needs, of which the capture and handling of inspection results is an integral part for which £3.1million of funding is required. It will be essential that any system developed is compatible with FBO-based IT systems. The economic value of this information is well proven. The pig producers are, with some financial help of the pharmaceutical industry, paying their own veterinarians to inspect carcasses and offal at the main pig slaughterhouses from a sample of pigs from all assured farms to feed back information on the health of their pigs to the producer and his veterinarian. This is despite the same pigs all undergoing official inspection by the MHS because the industry does not consider that Meat Hygiene Inspectors have the expertise required for the survey.

Communications

9.21 At head office level, contact and co-ordination between the Departments and Agencies is happening and getting better. For example the MHS Chief Executive sits on Defra's Animal Health and Welfare Strategy Delivery Board, which is chaired by the Chief Veterinary Officer (CVO), and the CVO attends MHS Board meetings. In addition a successful system has been put in place under which Defra, FSA and MHS agree the MHS' priorities, but on the other hand MHS are not specifically mentioned in Defra/Animal Health contingency plans. The creation of Government Veterinary Surgeons (GVS) and the recognition of the CVO as head of profession has much improved contact between Government veterinarians of all departments and hopefully in future will facilitate career moves between departments. However, differences in management structures and regional organisation seem to make communication at regional and local levels, especially between frontline vets doing different jobs, rather more difficult. Animal Health no longer has its own regional management structure but has aligned itself to Government Offices in the Regions. The MHS currently has five regions (likely to become four under its proposals for transformation) but these are mainly concerned with managing delivery and do not coincide with other recognised regional divisions. The FSA has regionally based Veterinary Meat Hygiene Advisors but their participation in regional structures with other veterinarians is not consistent and the FSA itself has a presence in only four of the nine Government Offices in the Regions. Where it happens, local co-ordination is usually dependent on initiatives by local authority groups, which may not be consistent or comprehensive in membership.

Moving Forward

- 9.22 This workstream has been taken forward under the wider Review of the Delivery of Official Controls in Approved Meat Premises. The Review team has not found any major problems in co-ordination between the different agencies that might suggest that a fundamental redesign is required. While the FSA is deliberating how to improve the work of its agency, the Meat Hygiene Service, so too are the Rural Affairs Departments asking similar questions in relation to the operation of Official Controls in animal health and welfare. The review would like to acknowledge with thanks the co-operation and support received from these partners, especially Defra and Animal Health, during our research of these topics.
- 9.23 One way of helping to resolve some of the communication issues highlighted above would be through the Regional Veterinary Managers proposed as part of the new FSA Veterinary Meat Hygiene and Official Controls Delivery Division. This cadre of senior, experienced veterinarians, stationed in the regions, would be responsible to the FSA for approving plants, the enforcement of Official Controls and verifying that Official Controls are being delivered properly in all plants under their oversight. They would also assist with the audit of FBO controls and provide support and advice to OVs working in slaughterhouses. This group would be well placed and would have the expertise to represent the FSA at regional level on veterinary public health matters. Other FSA staff stationed in Government Regional Offices could work with these Regional Veterinary Managers and others to ensure that each region has structures in place to facilitate communication on veterinary matters between the different agencies. From this point and given the necessary agreements and assurances, it would be possible to use the Regional Veterinary Managers to provide assurance of the Official Controls on public health and animal health and welfare delivered on farms, as well as in slaughterhouses.
- 9.24 A joined up service as described above would more fully reflect the farm to fork (or at least farm to cutting plant) approach and could provide useful information and reassurance both for the FSA and the Agriculture Departments and their Agencies. In the future it could fulfil the Board's wishes by merging fully with Animal Health.
- 9.25 As part of the wider reviews, we make a number of suggestions below designed to help improve understanding, communication and information flows between the different veterinary agencies, including private practitioners.

Recommendations

- 9.26 The FSA should work with its partners to:
1. Establish structures at national, regional and local levels to ensure regular communication between those responsible for the delivery of Official Controls throughout the meat supply chain (to include FSA, Defra, MHS,

Animal Health, VLA, VMD, BCMS, Local authorities, OVs and practising veterinary surgeons.)

2. Improve the information and advice that farmers, private veterinary surgeons and officials who visit farms receive... The objective is that the on-farm hygiene rules for livestock are better understood and implemented and that farmers provide high quality information as part of the food chain information system.
3. Implement effective surveillance systems for notifiable and non notifiable diseases throughout the meat supply chain and ensure that validated and relevant information is fed back to the farmer and private veterinary surgeons.
4. Develop suitable and accessible databases and web based information systems that will allow information on inspection findings gathered in the supply chain to be systematically collected and stored, with ready access by all partners.
5. Provide opportunities for slaughterhouse Ovs to become more fully integrated into the UK veterinary networks and to build professional links with their colleagues in the other agencies. This will help build mutual respect and a better understanding of the different activities and roles within the meat supply chain.
6. Ensure that there is clarity over who is responsible for doing what to promote food safety and animal health and welfare. The objective is that all the delivery bodies should be fully aware of their responsibilities, understand the work of the other agencies and provide support where appropriate.

Proposals for delivery

- 9.27 Three separate initiatives, or strengthening of current initiatives, are suggested to deliver the recommendations.
- a) While Defra already has a process to take forward its Animal Health and Welfare Strategy, a lack of clarity over the interface between the FSA and MHS senior veterinarians may have resulted in a less than optimal engagement by FSA/MHS. The creation of a Veterinary Meat Hygiene and Official Controls Delivery Division would provide a single conduit and help overcome this problem.
 - b) The FSA leads on food safety issues, but its own interests concerning on-farm issues are widely spread. It would be useful to develop a strategy to bring together those working on hygiene policy and enforcement at primary production, meat hygiene policy and enforcement and the Agency's specific work on Salmonella and Campylobacter reduction. A joint approach could engage better with all stakeholders to work towards a general improvement in the safety of food of animal origin. It would provide a common understanding of what the major risks are, where best to tackle them, and focus effort on meaningful controls.
 - c) In addition to improving local links, integrating OVs better into the wider veterinary networks could be facilitated by closer working of Government Veterinary Surgeons with the Veterinary Public Health

Association to which many OV's belong. The FSA has Members on the Councils of both organisations who could undertake the task.

CHAPTER 10: CHARGING AND COST SHARING

10.1 This chapter sets out:

- a) the cost to the FSA of meat hygiene and SRM controls delivered by the MHS;
- b) the results of an impact assessment on proposals³⁸ to increase meat hygiene charges and introduce charges for SRM controls;
- c) in light of the impact assessment and the cost reductions expected from implementing a new delivery model for Official Controls, some revised proposals on cost recovery; and
- d) a proposal for a joint programme of work to develop a more effective charging system for Official Controls to be implemented together with the new delivery arrangements for Official Controls.

10.2 **The Board is asked to agree** the revised cost recovery proposals set out in paragraphs 10.32 to 10.44 and the proposed next steps at paragraph 10.45.

Background to the Current Charging Arrangements

10.3 When the MHS was established in 1995, it was required to recover from the meat industry as much of its total costs as possible, while respecting the EU charging rules.

10.4 In 1997, the European Commission started infraction proceedings against the UK, alleging that we were not providing the full level of Official Veterinary supervision that the European Directives required. Ministers then decided that veterinary supervision levels should be increased. This increase followed the introduction of new controls in approved plants on the removal and disposal of Specified Risk Material (SRM) and other BSE related issues.

10.5 These decisions significantly increased the MHS costs of providing Official Controls and, under the arrangements then in force for full cost recovery, would have resulted in a sharp rise in costs to the meat industry. The Government's response in 1999 was to announce that:

- a) Charging for SRM controls would be deferred until 2002. The FSA subsequently extended this deferral and these charges have not yet been introduced;
- b) Meat hygiene inspection charges would not rise to reflect the greater level of veterinary supervision. Increases would be held at or below the prevailing rate of general inflation for a number of years; and

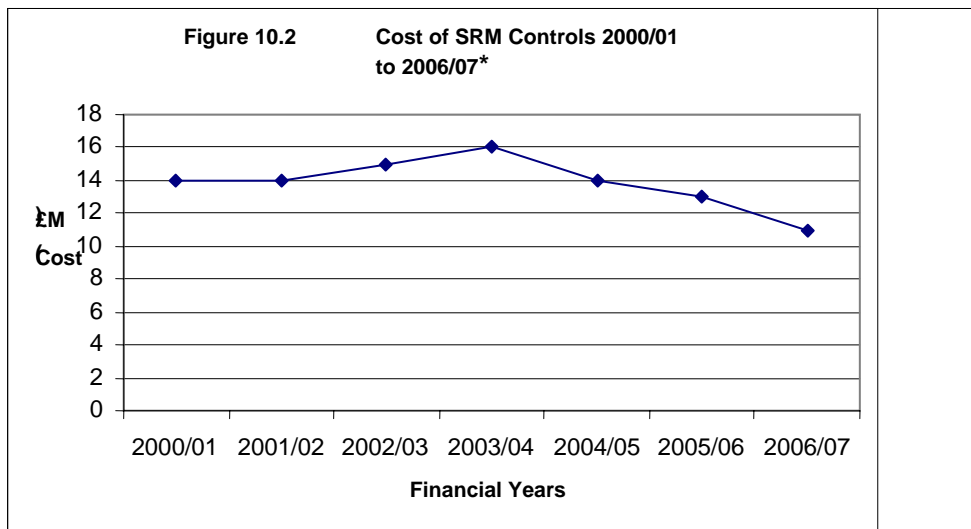
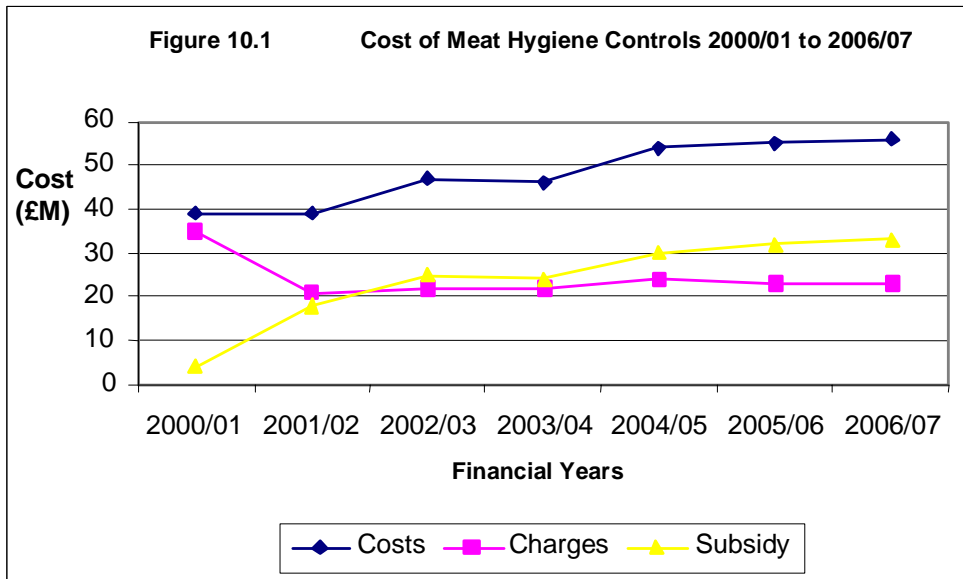
³⁸ discussed by the FSA Board in October 2006

- c) Colin Maclean, former Director-General of the Meat and Livestock Commission, would chair and enquiry into meat hygiene inspection charges.
- 10.6 The Maclean report (July 2000) concluded that returning to full cost recovery for the hygiene controls then required would result in the closure of many small and medium sized slaughterhouses and cutting plants. Maclean recognised that the long term solution to this would be to change the inspection system by making it more proportionate and risk based. In this way, he argued, actual costs could be reduced to levels that could be charged in full to businesses without jeopardising their operations.
- 10.7 However, the report recognised that it would take time to change EU regulations and that more immediate action was required to mitigate the effects of increased inspection costs. The solution (“the Maclean formula”) was that plants should be charged either the full cost of meat inspection (calculated according to actual time costs) or the headage (throughput) rates set out in the EU Directive, whichever was less. The Government accepted this recommendation and this new charging regime was introduced in April 2001 – and has been with us ever since.
- 10.8 The intended result of Maclean was that small to medium sized plants would pay a throughput charge and so be protected from paying the full costs of Official Controls. The reality, however, has been different with a majority of slaughterhouses (around 400 of the 416 red and white meat slaughterhouses) now paying EU headage rates rather than full time cost charges.
- 10.9 Approved cutting plants were in a similar position until 1 January 2006, when new EU regulations came into force replacing frequent OV supervision by a system of risk-based audits. Costs fell and many cutting plants moved to time-based charges as they were cheaper than throughput rates. On 1 January 2007, a further change in EU law removed the requirement to impose a minimum charge based on throughput rates even where this exceeded the time costs³⁹. As a result of these changes, almost 70% of the 700 or so approved cutting plants now pay charges based on the time costs of MHS audits of these plants.
- 10.10 A further complication is that even those plants paying time cost charges pay hourly rates some 20% to 30% below full costs. This follows a Ministerial decision that 1999/2000 hourly charge out rates should be frozen at 1998/99 levels (that were in themselves below full costs) and the increase in 2001/02 restricted to the rate of inflation. In recent years, times cost charging rates have been increased by 1 – 2% above inflation to move these rates back towards full cost recovery.

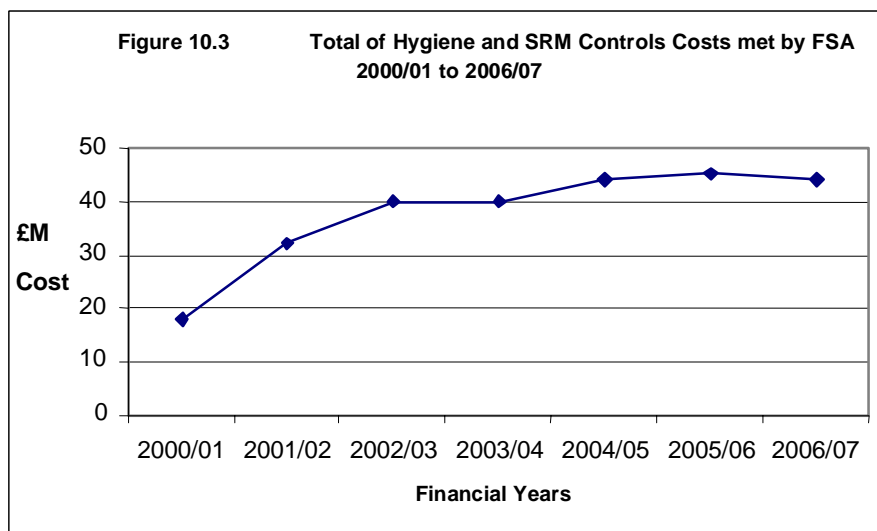
The costs of meat hygiene controls and SRM controls

³⁹ The “45% rule”

10.11 The following graphs set out the cost to the FSA of meat hygiene controls and SRM controls since the introduction of the 'Maclean' charging system.



* Cost of SRM controls to the FSA in respect of all TSE susceptible animals slaughtered for human consumption.



10.12 The above graphs show that:

- a) The effect of the introduction of the Maclean formula in 2001 - 2002 was to increase the hygiene subsidy by £14m from £4m to £18m.
- b) By 2006/07 the hygiene subsidy had increased by a further £15m per year, largely because the cost of delivering Official Controls increased year-on-year, but the throughput rates had to remain fixed to rates set down in EU law until 1 January 2007⁴⁰. The rates were subject to some changes during this period as they had to reflect changes in the €/£ exchange rate. The net effect of these annual fluctuations has been to increase the value of the rates by almost 12% over their 2001 levels. However, this is some 8% below the increases needed over this period to keep pace with inflation;
- c) SRM control costs peaked in 2003/04 at £16m a year after which they gradually reduced each year to their present level of £11.5 a year.

10.13 The combined cost to the FSA of meat hygiene controls and SRM controls in 2006/07 was £44.5m. Given current and future constraints on public expenditure, including the FSA budget, this level of subsidy is likely to be unsustainable. The FSA Board has previously decided that, in principle, the full costs of Official Controls in approved meat premises should be met by businesses. The Board has also said that charges should be increased such that, when taken together with reductions in the cost of delivering the controls, there is a progressive move towards full cost recovery.⁴¹

Original proposals to increase charges across the CSR settlement period (2008/09 – 2010/11)

10.14 Other parts of this report set out different ways in which the overall costs of delivering Official Controls might be reduced. This chapter focuses on the other side of the equation, namely progressive

⁴⁰ Throughput rates were increased in national legislation for the first time (by 3.5%) in March 2007.

⁴¹ FSA Board discussions in September 2005 (CLO 05/09/02), April 2006 (CLO 06/04/03), and October 2006 (CLO 06/10/03).

increases in charges to industry. Not surprisingly, this has raised some sensitive issues with FBOs and industry representatives and, at the time of writing, there is no agreement with industry about proposals to increase charges for Official Controls.

Cost recovery proposals discussed by the Board in October 2006⁴²

10.15 In October last year, the Board agreed that the Executive should develop proposals for public consultation in summer 2007 to increase meat hygiene charges and to introduce a charge for SRM controls to deliver the increases in cost recovery in each year of the CSR settlement. Table 10.1 below shows the increased amounts that the Board has agreed should be recovered from industry.

Table 10.1 Targets for Cost Recovery from Industry

	2008/9	2009/10	2010/11
Increased cost recovery from charges for meat hygiene Official Controls	£2.5m	£3m	£3m
Cost recovery from SRM charging	£6m	-	-
Cumulative total	£8.5m	£11.5m	£14.5m

10.16 Using 2006/07 as the baseline year and assuming that everything else remains constant (i.e. no reductions in the costs of delivering Official Controls), the increased charges shown above would reduce FSA net costs as shown on Table 10.2 below. Reductions of this order in the cost to the Agency of MHS controls are a key part of the Agency's plans to operate within the budgetary constraints that the Agency has been set for the CSR settlement period. Were the costs of delivering Official Controls to reduce significantly, the FSA might no longer require this level of increase in cost recovery in order to reduce the MHS subsidy.

Table 10.2 Forecast Impact of Charging Proposals over CSR Period

	2006/7 (base)	2008/9	2009/10	2010/11
Increases in revenue from charges		£8.5m	£11.5m	£14.5m
Net cost of hygiene and SRM controls to FSA	£44.5m	£36m	£33m	£30m

⁴² FSA Board Paper CLO 06/10/03.

Defra cost sharing plans

- 10.17 Defra is also planning to consult on the transfer of certain of its costs to the red meat slaughterhouse and cutting plant sectors over the CSR period. They are developing proposals on charging for the costs of MHS controls on BSE testing and SRM removal for OTM⁴³ cattle for human consumption and a proposal that slaughterhouses should pay approved laboratories direct for the cost of analysing brain stem samples. All these costs are currently met in full by Defra. These proposals are likely to cost industry between £5m to £13m per year over the CSR period.
- 10.18 Defra's proposals apply only to England but would have UK wide application if agreed by the devolved administrations. There are links between these proposals and the FSA's proposal to introduce charges for SRM controls and a single charging approach should be developed to cover both.

Likely Impact on industry of FSA and Defra cost sharing proposals

- 10.19 The total extra cost to industry of the FSA and Defra proposals by 2010/11 would be in the region of £27m per year. If this were to be paid in full by FBOs, it would represent more than a doubling of the £23.4m charges paid to the MHS by industry 2006/07. Advice from FSA and Defra economists suggests that a significant proportion⁴⁴ of this additional cost could be passed back to farmers. In light of this possibility, Defra is undertaking an assessment of the impact that these proposals could have on the farming sector.
- 10.20 The results of the impact analysis of FSA and Defra proposals is set out below. Calculations have been made on the basis that the full cost transfer (£27m) would be absorbed by slaughterhouses, cutting plants and game handling establishments. The analysis is set against the baseline of 2007/08 charging levels, uplifted by inflation to represent the likely cost of charges to industry from 2008/09 before the proposed increases in charges and cost transfers are added.

Impact on Red Meat Slaughterhouses

- 10.21 The combined effect on red meat slaughterhouses of the proposed increase in hygiene charges, introduction of SRM and DEFRA charges and the transfer of BSE testing costs would be to raise average costs per plant for Official Controls and BSE testing from £64,000 in 2007/08 by 64% to £105,000 in 2008/9, 102% to £129,000 in 2009/10, and 114% to £137,000 in 2010/11.
- 10.22 Plants choosing to process OTM cattle for human consumption would experience larger increases. Their costs would increase over the 2007/08 baseline by 122% in 2008/9, 234% in 2009/10, and 248% in 2010/11. The average cost borne by OTM plants for hygiene and SRM

⁴³ Over Thirty Months

⁴⁴ As much as two thirds or £18m

controls as well as BSE testing would jump from £130,000 in 2007/08 to £450,000 in 2010/11.

10.23 Based on the business accounts of a sample of 78 red meat slaughterhouses, the average profit margin for this sector of the industry is just 1.5% and one third of them are making a loss. The charging/cost sharing proposals should therefore be considered in the context of an industry where profit margins are already small and restructuring is taking place. In assessing the likely impact that the proposals could have on profit margins, we assumed that red meat slaughterhouses will absorb on average one third of the additional cost. On this basis, profit margins could decrease by 0.2% in 2008/9 and by a further 0.1% by 2010/11. This means that the extra cost burden would reduce the average profit margin for these businesses by roughly 20% from 1.5% to 1.2% and the proportion of red meat slaughterhouses making a loss would rise by more than 10%.

Impact on poultry slaughterhouses

10.24 Poultry slaughterhouses would be affected by the proposed changes to hygiene charges and not the SRM element. The analysis indicates that the average charge in poultry slaughterhouses would increase over the 2007/8 baseline (£29,000) by 23% to £36,000 in 2008/9, 50% to £44,000 in 2009/10, and 79% to £53,000 in 2010/11.

10.25 Economic information available on the poultry sector indicates that the average profit margin in the sector is currently 1.7% and that one quarter of businesses make a loss. Against this background, it is considered that the economic impact of the proposed charges on this sector would be significant, though potentially not as severe as those described for the red meat sector.

Impact on Cutting Plants

10.26 Under the proposals, cutting plants would also pay higher meat hygiene charges. However, as many of them already pay time costs, the impact of changes to throughput rates would be more limited. We estimate that the average hygiene charge per plant would increase from £616 in 2007/08 by 7% to £659 in 2008/9, 16% to £715 in 2009/10 and 26% to £775 in 2010/11.

Impact on Game Plants

10.27 These plants would also be affected only by the proposed increases to meat hygiene charges. The average charge imposed on game plants would rise from an estimated £2,285 in 2007/08 by 13% to £2,574 in 2008/9, 28% to £2,927 in 2009/10, and 44% to £3,296 in 2010/11.

Conclusion from the impact assessment

10.28 The conclusion from the impact assessment is that were the combined FSA and Defra cost sharing proposals to proceed, they would transfer

significant additional costs to approved meat plants, particularly red meat slaughterhouses. Not only would this raise questions of affordability, fairness and proportionality, it would also be likely to threaten the viability of some plants and accelerate the restructuring that is already taking place within the industry. This would have potential implications for animal welfare, sustainability and rural economies and communities, especially if smaller, rural plants were forced to close.

10.29 The likely impact would cause significant concerns within the industry and the political implications would raise questions over whether Ministers would be prepared to make the necessary secondary legislation needed to implement the proposals. This risk would be increased in the Devolved Administrations where there is heightened concern about the economic vulnerability of small, rural meat plants and the impact on the marginal, low (or no) profit livestock farmer.

10.30 Fortunately, since the original cost recovery targets were suggested, the review of delivery models has concluded that there is significant scope to reduce the costs of delivering Official Controls. This clearly has a bearing on how much additional cost would need to be recovered from industry in order to reduce the FSA's financial liabilities. If costs can be brought down, then perhaps charges to industry could rise more slowly,

10.31 This approach would be consistent with the first of the charging principles agreed by the Board in February 2007. The principle is that:

“In line with government policy, businesses should where possible pay the full cost of the inspection and enforcement that is needed. However, part of the deal is that inspection and enforcement should be no more than is needed and delivered in the most efficient and cost-effective way possible. In addition, since moving to full cost recovery is likely to impact significantly on the cost base of many meat businesses, we also need to consider the appropriate timescale over which any such change could be phased in.”

Revised proposals to increase charges across the CSR settlement period (2008/09 – 2010/11)

10.32 In light of the above, the Board is invited to agree that the original proposals to increase hygiene charges and introduce SRM charges from April 2008 should be modified. The new proposals suggested below are consistent with previous Board conclusions that, in principle, industry should pay for the cost of Official Controls, including SRM controls, and that there should be a progressive move towards full cost recovery. However, in light of the impact assessment, the revised proposals are for a more modest level of increase in 2008/09 and dialogue with stakeholders to determine the increases that should be set for 2009/10 and 2010/11, linked to reductions in the costs of delivery. The revised proposals are set out in detail below, but in summary they would mean:

- a) increasing certain hygiene throughput rates by 1 January 2008 in order to comply with EU legislation. The Agency has no choice in this matter;
- b) increasing other hygiene throughput rates by 5% above inflation from April 2008;
- c) developing a new charging system in consultation with stakeholders to cover all MHS chargeable regulatory work to be introduced from 2009/10 as part of the implementation of new delivery arrangements for Official Controls stemming from this Review. The intention would be that the new charging approach would include SRM controls and would enable further increases in cost recovery as necessary whilst more effectively targeting a reducing level of subsidy to the industry.

Charges for meat hygiene controls: increases required by Community law

10.33 Rules on meat hygiene charges are set out in EU regulations⁴⁵. These set down minimum EU throughput charges that must be implemented by 1 January 2008. Some of these rates (e.g. for adult bovines and certain sizes of turkey) exceed the throughput rates that are currently charged in the UK. We therefore need to amend domestic legislation to increase these throughput rates in order to remain in compliance. A draft Statutory Instrument to achieve this is ready to be issued for public consultation before the end of July 2007, subject to the necessary agreements.

10.34 The throughput rate for adult bovines will increase by 6% from £3.18 to £3.37. The impact will be small on average, but will vary across plants depending on their degree of specialisation in the slaughter of cattle. Simulations suggest that the increase would generate in excess of £300k in extra revenue and therefore an extra cost of this amount for red meat slaughterhouses. In the case of poultry plants, the most significant change will affect young turkeys weighing more than 2kg, as the throughput rate for this category of birds will increase by 19% from £0.014 to £0.017. The impact on poultry slaughterhouses should be small on average because turkeys only account for 2% of the poultry slaughtered in the UK. However, the rate change could have adverse effects on plants that specialise in turkeys, including some small plants that specialise in the seasonal slaughter of turkeys. The extra revenue from this rate change will amount to less than £50k.

Charges for meat hygiene controls: proposals for inflationary and above inflationary increases

10.35 Meat hygiene charges were fixed in EU law until 1 January 2007, when fixed standard throughput rates were replaced by minimum throughput rates. Following this change, the Agency increased UK throughput

⁴⁵ Regulation (EC) 882/2004 on Official Controls performed to ensure the verification of compliance with feed and food law, animal health and welfare rules.

rates from April 2007 by 3.5%⁴⁶ over 2006 levels. This was intended to cover inflationary increases in MHS costs and to limit further growth to the Agency's subsidy of MHS costs. Looking forward, **the Board is asked to agree** that throughput charges and time cost hourly charges should increase each financial year by at least the cost of inflation. Further, in order to help reduce the hygiene subsidy, for 2008/9, throughput charging rates should increase by 5% above inflation.

- 10.36 Taken together, the increased charges to comply with EU regulations and a 5% increase above inflation in other rates from 1 April 2008 would generate increased revenue in 2008/9 of a little over £1 million. Some £740k of this would be paid by red meat slaughterhouses and £260k by poultry slaughterhouses. The cost to game handling establishments and cutting plants would be less than £30k. Altogether, the economic analysis indicates that the revised proposals to increase cost recovery in 2008/09 would have a manageable impact.

SRM charging

- 10.37 Given that the Board will consider proposals to simplify SRM controls at its meeting in July 2007, it would be difficult to introduce new SRM charges simultaneously. This, together with the results of the impact assessment reported above, suggests that it might be sensible to delay the introduction of SRM charges beyond the original target date of April 2008. Instead, the **Board is asked to agree** that SRM charging should be part of the development of a new charging approach for all MHS chargeable work to be introduced in 2009/10.

Charging arrangements in the longer term

- 10.38 At its February 2007 meeting, when considering the Interim Report from the Review of the Delivery of Official Controls in Approved Meat Plants, the FSA Board agreed the following set of charging principles that should inform the development of future charging policy and charging arrangements:

- a) In line with government policy, businesses should where possible pay the full cost of the inspection and enforcement that is needed. However, part of the deal with business is that inspection and enforcement should be no more than is needed and delivered in the most efficient and cost-effective way possible. In addition, since moving to full cost recovery is likely to impact significantly on the cost base of many meat businesses, we also need to consider the appropriate timescale over which any such change could be phased in.
- b) Food Business Operators (FBOs) are primarily responsible for ensuring meat safety. Those that are judged to have excellent systems in place (e.g. by meeting recognised Quality Assurance Standards) should be subject to less (and less costly) inspection than others. Businesses should have the opportunity to achieve

⁴⁶ FSA Board Paper CLO 06/10/03

'earned autonomy' to the (currently very limited) extent that EU law allows. The amount and therefore the cost of inspection should be proportional to the risks.

- c) The charging system should be transparent and consistent. Businesses should understand what they are being charged and why.
- d) The charging system should provide an incentive for businesses to plan and operate efficiently. This implies moving away from the current inflexible, flat rate charging system for Official Controls to a more flexible and responsive system based on time cost charging, whether or not some element of subsidy is maintained.
- e) The costs of controls should not be cross-subsidised within the industry. Plants should pay for the services they receive on a fair and consistent basis. In line with the EU regulations, no plant should pay more than the full costs of the Official Controls it receives.
- f) The charging system should incentivise the control authority to plan, organise and undertake Official Controls effectively and to maximise the efficiency with which it deploys its inspection resources.
- g) The charging system should be as simple as possible to administer and should be equally applicable to the different charging requirements of Other Government Departments. Different charging systems should be joined up as far as possible.
- h) There should be a full Regulatory Impact Assessment to inform the adoption of any new charging system. The FSA and Rural Affairs Departments will need to have a joined up and consistent approach to assessing the impact of proposals to implement the government's cost sharing policy.
- i) Consideration must be given to the economic vulnerability of small, often rural plants that may not be in a position to pay the full costs of their inspection, whichever charging system is finally chosen.
- j) To the extent that the FSA may decide to provide subsidy to the meat industry to offset the full cost of charging, that subsidy should relate to the protection of public health. Where a need for subsidy is identified for other reasons, Government should identify the appropriate support mechanism.
- k) The charging system must satisfy the finance provisions of the EU Regulations on Official Feed and Food Controls.

10.39 The current charging arrangements for Official Controls do not satisfy many of these principles, particularly where plants pay fixed throughput charges that are difficult to relate in any meaningful way to the real costs of the services provided. Throughput charges operate as though

all plants were the same. They prevent the Agency from targeting any subsidy to those most in need and provide no financial incentive for businesses to improve efficiency, standards or levels of compliance. The result is that the charge to the plant for Official Controls on one bovine (or Livestock Unit) is the same, irrespective of whether the plant is excellent (and so needs less supervision) or high risk (and so requires more). For the plant operator, the charge will remain the same however much he improves his standards or efficiency.

- 10.40 Similarly, throughput rates cannot easily drive the delivery authority (currently the MHS) to be more efficient, as they provide no incentive for plant operators to challenge inefficiency – the plant operator will pay the same however many resources the MHS has in the plant. Equally, the MHS has found that operating the throughput charging system itself causes inefficiencies, as it is complex and costly to administer and results in invoices that operators find difficult to understand.
- 10.41 For these reasons, we propose that the MHS and FSA should work with stakeholders to develop new charging arrangements consistent with the principles set out above and which could be introduced as part of the implementation of any new delivery arrangements arising out of this review.
- 10.42 Current thinking, that will need to be developed further with stakeholders, is that a charging system based on the time costs of Official Controls would be the more effective in providing the right incentives to improve compliance, standards and efficiency. If so, there would be an added benefit that the need for Official Controls might reduce over time, leading to lower delivery costs overall. Designing such a system to maximise benefits while minimising administration costs is likely to be a challenge, but one that it would be well worth the TMHS and FSA taking up together with Defra, the Devolved Administrations, and industry representatives.
- 10.43 The main difficulty associated with time, or actual, cost charging is the impact that this could have on small or low throughput plants. Inevitably, low throughput means that these plants cannot use OV and Meat Inspector time as efficiently as bigger plants. Alongside taking forward the proposals for low throughput plants set out in Chapter 7, it is likely that such plants will require some level of ongoing subsidy towards the costs of Official Controls. This is likely to be the biggest challenge and should therefore form a specific part of the discussions moving forward.
- 10.44 For its part, the MHS regards the development of a new time cost based charging system as a key requirement for its successful transformation and has already signalled its commitment to working with industry to develop a new approach.

Next steps

- 10.45 The proposed next steps are that the Agency will:

- a) issue a public consultation by the end of July 2007 on proposals to implement by 1 January 2008 the limited increases in meat hygiene throughput charging rates required by EU legislation and described in paragraph 10.32;
- b) subject to necessary Ministerial clearances, issue a further consultation during the summer on proposals to increase hygiene throughput charges (other than those increased because of EU legislation) by 5% above inflation from April 2008 (see paragraphs 10.34 and 10.35); and
- c) take forward a programme of work with the MHS and stakeholders to develop a more effective charging system for Official Controls, including the cost of SRM controls, to be introduced from 2009/10 as part of the implementation of new delivery arrangements for Official Controls stemming from this review (see paragraphs 10.38 - 10.44).

10.46 **The Board is asked to agree** to steps 10.45(b) and (c) above.

CHAPTER 11

FINANCIAL ANALYSIS OF THE DELIVERY OPTIONS

- 11.1 This section of the report brings together the results of the financial modelling of the two main delivery options, the Transformed MHS and the Delivery Partner model. These two models are compared according to three main financial indicators⁴⁷:
- Effect on total operating costs;
 - Requirements for initial investment and ongoing management costs;
 - Likely future revenues.
- 11.2 The financial modelling has been done jointly by the FSA Review team and the MHS finance team and based on a set of agreed assumptions.
- 11.3 To make the comparison meaningful, we have compared the transformed MHS business case⁴⁸ against the alternative model of a single Delivery Partner operating throughout Great Britain, rather than a competitive market of Delivery Partners. If the FSA were instead to contract for a number of Delivery Partners and so introduce an element of competition between potential suppliers, it is likely that costs for the Delivery Partner model would be lower and savings higher than shown in this exercise.
- 11.4 Given that many of the figures for the Delivery Partner model depend critically on the assumptions being made, we have erred on the side of caution in calculating costs and estimating savings. Hence, the costs of setting up the Delivery Partner should be treated as maximum costs and the savings achievable as minimum savings. Some of those we have consulted about these figures have said that they would expect a Delivery Partner or partners, properly contracted and managed, to deliver more cost savings than have been indicated in this financial analysis.
- 11.5 For the purposes of comparison, both models have been analysed against a baseline total cost of £91.3m, the total MHS cost in their 2006/7 accounts.
- 11.6 It has been assumed that the Delivery Partner will be operational by financial year 2009-2010 and will be contracted for a period of 5-years.

Headline results

- 11.7 **Transformed MHS:** Investment by the FSA of £18.5m to transform the MHS is expected to reduce total operating cost from the baseline of £91.3m to £75.9m by 2017-2018, a reduction of nearly 16.8%. The forecast net present value is £103m by 2017-18 and payback on the initial investment is achieved by 2010-11.

⁴⁷ Note that all the figures ignore inflation

⁴⁸ As prepared and submitted to the Review by the MHS team

11.8 **Delivery Partner:** Investment of £23.1m by the FSA to set up a Delivery Partner is expected to reduce total operating cost from the baseline of £91.3m to £69.9m by 2017-2018, a reduction of 23.4%. The forecast net present value is £112m by 2017-18 and payback on the initial investment is achieved by 2011-12.

Section A: Total Operating Cost

11.9 Table 11.1 provides an overall summary of the forecast costs of the two delivery models at two key points in the planning horizon. The Comprehensive Spending Review (CSR) period covers the three financial years 2008/9, 2009/10 and 2010/11. As this could be a period of financial pressure for the FSA, the amount by which costs could reduce over that period is important. We have also modelled the results over a ten year planning horizon to 2017/18. Both delivery models are presented against a “do nothing option”, which simply assumes that outturn 2006/7 budget continues unchanged.

Table 11.1 Forecast Total Operating Cost

Option Delivery Cost Comparison		After CSR 2007	After 10-year
£m / Annum	Baseline 2006/07	2011/12	2017/18
Do Nothing			
Total Cost	91.3	91.3	91.3
Key Cost Components			
>Total Operational Costs	75.3	75.3	75.3
>Estimated Administrative Pay Costs	9.7	9.7	9.7
Transformed MHS			
Estimated Total Cost		75.9	75.9
Key Cost Components			
>Estimated Total Operational Costs (Frontline)		61.6	61.6
>Estimated Administrative Pay Costs		7.3	7.3
Delivery Partner			
Estimated Total Cost		77.0	69.9
Key Cost Components			
>Estimated Total Operational Costs (Frontline)		59.4	53.1
>Estimated Administrative Pay Costs		4.6	4.6
Additional Management Costs incurred by the FSA		2.8	2.8
Delivery Partner Service Charge (Estimated ROI)		5.1	4.7

11.10 Over the 10-year period, the total do nothing costs of MHS operations would be £1,004m. Assuming transformation proceeded as planned, the equivalent TMHS would cost £864m (-14%) over the same 10 year period and the Delivery Partner model would cost £808m (-19.5%).

Primary Cost Reduction Drivers

11.11 As the delivery of Official Controls is labour intensive, the main way to achieve cost reductions is by a progressive reduction in the number of employed or contracted staff and careful management of terms and conditions. In the 2006-2007 baseline year, staff costs were 88% of total MHS costs and costs associated with operational delivery were 78%. On average, the full cost of employing (for example) 100 Meat Hygiene Inspectors is some £3m per year. Table 11.2 summarises the staff changes (full time equivalents) that have been modelled for both of the options.

Table 11.2 Proposed FTE Changes Summary⁴⁹

Function	Baseline FTE	Transformed MHS	Delivery Partner & FSA
Frontline Delivery ⁵⁰	1630	1488	1295 (Delivery Partner only)
Operational Management ⁵¹	248	80	79 (Delivery Partner only)
Corporate Services ⁵²	108	101	80 (Delivery Partner & FSA)
Veterinary & Technical Support Unit ⁵³	38	45	55 (FSA only)
Total	2024	1714	1509

What this means in practice

11.12 Currently in the MHS there are a number of roles, such as Senior Meat Inspectors and Official Veterinarians, which have both operational and management elements. In both options, these staff would spend more of their time on frontline, delivery tasks.

11.13 The Transformed MHS model includes a total reduction of 310 (15%) staff⁵⁴ by 2010-2011 while the Delivery Partner model would have 515 (25%) fewer staff by 2013-2014. The difference does not arise from different assumptions about the quality or extent of service provided but from assumptions about the management and flexibility of contracts need for administrative overhead.

11.14 Another difference between the two options is the balance between employed and contract staff. Compared with the current baseline, the

⁴⁹ A more detailed analysis of the FTE changes is in Annex D

⁵⁰ Includes the following MHS grades: Meat Hygiene Inspectors and Official Veterinarians (including contract staff)

⁵¹ Includes the following MHS grades: Senior Meat Hygiene Inspectors, regional management and administration including Area Managers, Regional Veterinary Advisors, and Area Official Veterinarians

⁵² Includes the following MHS functions: Finance, HR, IT, Business Development, Agency Administration staff

⁵³ Provision to restructure the FSA veterinary and contract management function

⁵⁴ All staff numbers are given as full time equivalents (FTEs)

MHS option would reduce contractor staff by 110 and the Delivery Partner by 44.

- 11.15 The Delivery Partner option shows a reduction in corporate service staff from 108 to 40. However, not all these posts would disappear. Certain activities such as invoicing and billing would not be delegated to a Delivery Partner but would transfer from the MHS to the FSA. We estimate that some 40 posts would transfer to the FSA, bringing the total (Delivery Partner + FSA) total of corporate service posts to 80, an overall reduction of 28 from the baseline. This would provide opportunities to rationalise the provision of corporate services between FSA and MHS and so further reduce overall costs.
- 11.16 The reductions in operational management under the Delivery Partner model depend on having single, integrated teams (Official Veterinarian and Meat Inspectors working for the same organisation with a single management line) in plants, managed by the plant OV. A Delivery Partner would also provide its own Veterinary Managers to support these teams, but without the current duplication, overlap and expense of having separate technical and managerial streams.
- 11.17 In addition the FSA, as the contractor of the Delivery Partner, would need to manage the performance of the contractor, audit the delivery of Official Controls, approve plants and take the lead on enforcement decisions. This would require FSA to reorganise and strengthen its veterinary capacity by bringing together existing FSA staff with those currently working for MHS Veterinary and Technical Support, together with limited new recruitment. The total amount of resource required has been estimated⁵⁵ but would need to be reviewed in light of a final FSA Board decision on the delivery model going forward.
- 11.18 In addition to the staff changes in the models described above, the following table (Table 11.3) summarises other key points underpinning the forecast reductions in overall delivery costs.

⁵⁵ The current resource estimates are based upon discussions with the MHS Veterinary Director and the Deputy Director of the Meat Hygiene and Veterinary Division, FSA

Table 11.3 Primary Cost Reduction Opportunities⁵⁶

Transformed MHS by 2011/12	Delivery Partner by 2013-2014
MHS savings assume cost reduction activity only until 2011. Further costs reductions are likely but have not been modelled by the MHS.	Assumes that a Delivery Partner would not start operating until 2009 and that the MHS would continue to reduce its costs throughout 2007 and 2008 through its improvement programme.
Reduction in Frontline staff £6.3m from modelled staff reductions and Comprehensive Spending Review programme reductions Reduction in staff costs £3.0m as a result of implementing a time-based charging system and incentivising more efficient FBO behaviour.	Frontline staff salary and overtime costs will be reduced by £12.3m as a result of modelled staff reductions. Note that, following TUPE and Cabinet Office guidance, the model has not assumed significant changes to the terms and conditions of transferred staff.
Establishment of Lead OV as operational manager saving £2.0m Regional operational and veterinary management re-structure saving £3.2m	Estimate contractor costs will be reduced by £7.2m per year by reducing the supplier base, greater OV flexibility, service innovation and more effective contract management
Corporate Services and Regional Office Streamlining saving £1.4m	Overhead costs will be reduced by £7.5m from: <ul style="list-style-type: none"> • Reducing staff costs (£2.4m) • Reducing accommodation costs in HQ and regions (£1.1m) • Reducing operational management costs (£1.8m) • Transfer of policy work to FSA (£1.5m)to FSA
Includes £3.1m over 10 years for provision of Food Chain information	Not included in Delivery Partner proposals

Section B: Investment and Ongoing Management Costs

11.19 The forecast investment costs include the following elements:

1. **Programme Implementation costs.** These are the one-off costs to complete the change programme. Under the Delivery Partner model, the FSA would incur programme costs from (1) taking over tasks from the MHS, such as invoicing and collecting charges and (2) the procurement and contract management of the new Delivery Partner, including their service charge. (Delivery Partner margin);

⁵⁶ The incremental cash flow analysis for the two options can be found in Annex E and Annex F

2. **Severance costs.** These are the one-off costs for staff reductions and restructuring. These are payable by the FSA/MHS in the Transformed MHS model, whereas in the Delivery Partner model, they would become the responsibility of the Delivery Partner once in operation. This could be important, given the potential uncertainty of current MHS revenue streams⁵⁷.

11.20 These costs are shown in Table 11.4 below.

Table 11.4 Estimated Maximum Programme Investment Costs

	Transformed MHS (completed by 2011-2012)	Delivery Partner (completed by 2011-2012)
Total Programme Implementation Costs	£2.1m	£3.5m
Total Severance Costs	£16.4m	£19.6m
Total	£18.5m	£23.1m

Severance Costs⁵⁸

11.21 Severance costs represent the major investment being made and are likely to be the most difficult and sensitive area of discussion and negotiation. It will be vital to ensure that well informed and high quality management is in place to manage relations with staff and the unions. The quality, timing and handling of the business decisions taken will have a significant impact upon the final severance cost, whether for the TMHS or Delivery Partner model.

11.22 The severance costs have been modelled on the basis of maximum possible payments, based on existing contractual obligations and two variables:

- A discretionary payment that might be made to Local Government Pension Scheme Members (LGPS) to offset the difference with the Civil Service Pension Scheme
- An assessment of the costs associated with a 26 week notice period for compulsory redundancy

11.23 Table 11.5 below shows the forecast severance costs

Table 11.5 Severance Cost Analysis

	Transformed MHS £m	Delivery Partner £m
LGPS	2.8	3.1
26 Weeks	4.0	5.2
Basic Costs ⁵⁹	9.6	11.3
Total	16.4	19.6

⁵⁷ See the Section on Revenue

⁵⁸ Currently the Severance costs are based upon averages calculated for each current MHS grade and do not represent the payments any individual could expect.

⁵⁹ Based upon an average cost per MHS grade

11.24 Providing a range of opportunities for staff (such as voluntary early redundancy, voluntary early retirement, scope for re-deployment and relocation) is likely to be both welcomed by staff and an important part of controlling the overall costs of severance.

11.25 The Delivery Partner model is based on the transfer of responsibility for the delivery of Official Controls entirely to one organisation and the consequent closure of the MHS. It follows that severance costs will be greater than for the TMHS model, but the total severance costs will depend on a number of factors:

- The number of MHS staff who join the Delivery Partner. We have assumed that frontline staff would join on a TUPE basis, but there would also be opportunities for other MHS staff, for example from York or the Regional Offices, to join a new Delivery Partner.
- The number of MHS staff in York or the regions who would wish to continue to work for the FSA under the new arrangements, whether at their current stations, in London or elsewhere.

FSA Future Ongoing Management Costs

11.26 The implementation of a Delivery Partner will require the FSA to absorb certain tasks currently undertaken within the MHS, with associated cost increases over the current FSA baseline⁶⁰. In addition the Delivery Partner would obviously want a return on its investment and this creates a new cost for FSA to consider in light of the potential savings. This cost would not arise under the TMHS model.

11.27 The results of modelling these management costs are shown in Table 11.6 below.

Table 11.6 – FSA Future Ongoing Management Costs

Additional Cost	£m per year
Additional Management Costs	2.9
Delivery Partner Service Charge	4.0-5.5
Total	Up to 8.4m per annum

11.28 These costs have been modelled on the following basis:

- Additional management costs include £1.3m per annum contribution from the FSA to close the current LGPS deficit inherited from the MHS. This cost is subject to triennial valuations.
- The Delivery Partner will be contracted to provide the required service for an agreed cost. The service charge (Delivery Partner profit) is based upon a percentage of forecast total costs, 5% in year 1 rising to 7.5% thereafter.

11.29 It is important to emphasise that, by using the competitive dialogue procurement process well, the FSA would have the opportunity to

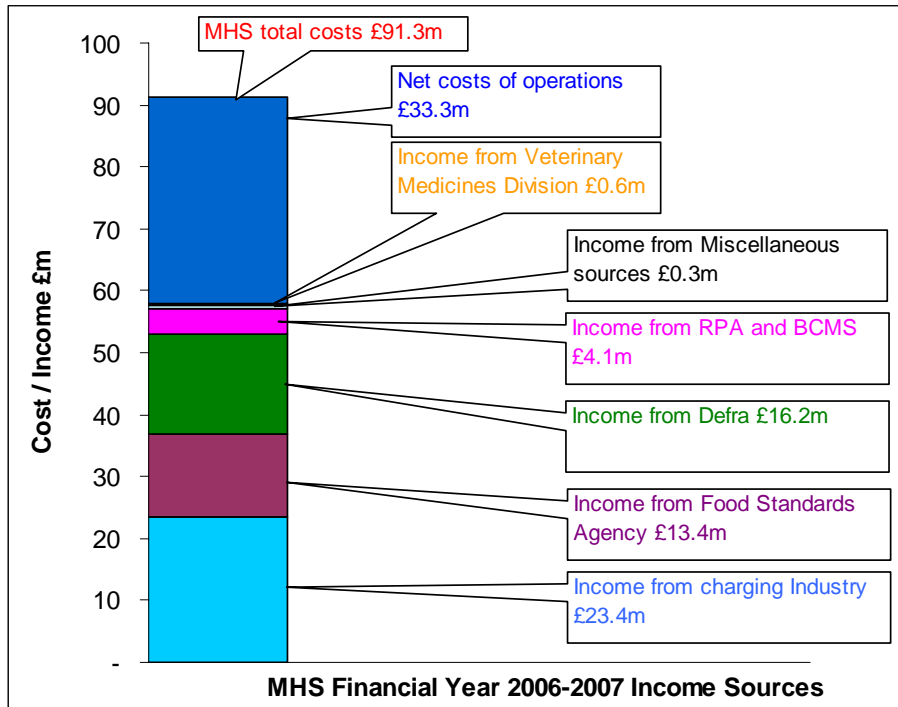
⁶⁰ These costs are currently part of the MHS budget but may vary in a Delivery Partner model.

explore how different Delivery Partners could transform service delivery, improve standards and reduce the total costs of delivering Official Controls. This is likely to be critical to achieving the FSA ambition to achieve full-cost recovery.

Section C: Revenue

11.30 The MHS income in financial year 2006-2007 is shown in Figure 11.1 below:

Figure 11.1 MHS Income in Financial Year 2006/7



11.31 The MHS currently has two principal customers:

1. The Food Standards Agency – as the Competent Authority for food safety, we pay the MHS to carry out standard meat hygiene Official Controls under EU regulations. We also pay for specific additional controls related to BSE controls, including supervision of specified risk material (SRM) removal.
2. Defra and its agencies – Defra and the devolved Agriculture Departments are the UK Competent Authorities for animal health and welfare controls. Defra pays the MHS more than £20m per year to carry out these controls throughout GB⁶¹.

11.32 In addition, because the MHS is an FSA agency, the FSA is liable for any operating losses incurred by the MHS (the difference between its total costs and the income received from charges). In 2006/7, this amounted to £33.3m.

⁶¹ Note that although policy responsibility is devolved, MHS funding for animal health and welfare controls comes Defra rather than directly from the Devolved Administrations.

11.33 This provides an important context for the consideration of future delivery options. Overall, the MHS receives 51% of its funding from the FSA. That rises to 74% with the addition of income from Defra and its agencies. This strong reliance on government customers is a risk, given future reductions in public spending and the pressure on government department budgets. We can therefore expect existing MHS revenues to come under considerable pressure as government customers seek to reduce their commitments.

11.34 £23.4m was recovered from Food Business Operators in 2006/7 against an estimated service delivery cost of £56.7m, a recovery rate of 41%. The rate at which the FSA/MHS can close the gap between costs and income is a critical variable in determining the FSA's future financial liabilities.

11.35 For the purposes of modelling, we have assumed that:

1. The FSA will implement the increased revenue proposals agreed in October 2006⁶². These are:
 - To introduce charges for SRM controls - £6m to be recovered from industry per annum. Note however that, as the FSA currently carries this cost, there is no net effect on overall revenues.
 - To increase meat hygiene charges in stages over the Comprehensive Spending Review period with an additional £8.5m recovered from Food Business Operators per annum by 2010/11.
2. As government customers are charged at full cost, any savings in delivery costs be reflected in reduced charges to government customers, even though the MHS overall financial position remains in serious deficit.

11.36 There are a number of challenging issues relevant to finding a new approach to the delivery of Official Controls best suited to this challenging business and financial environment. They include:

- The FSA's approach to charging will have a major impact on how much the FSA will need to invest in future in the delivery of Official Controls. This includes both the level of charges and also how those charges are calculated. This clearly includes the controversial issue of whether to continue with a system of throughput (or headage) charges or to move to a system of time-based charging. Previous decisions on charging, including a freeze on headage rates and the widespread use of the Maclean formula, have been one significant cause of the current MHS deficit.
- The assumption that an additional £14.5m per year (£6m SRM and £8.5m hygiene) can be recovered from Food Business

⁶² Note however that modelling elsewhere in the report (see Chapter 10 Charging and Cost Sharing) suggests that these proposed increases may not be achievable.

Operators is looking increasingly optimistic. Food Business Operators are likely to resist proposals to increase charges without a higher level of confidence that the costs of delivery are being brought under control and more opportunities to work more in partnership with the FSA and the organisation responsible for delivering Official Controls on the ground to identify further opportunities to improve services. It follows that the FSA will need to have in place a contingency plan to manage its finances in the absence of significant increases in MHS income from FBOs.

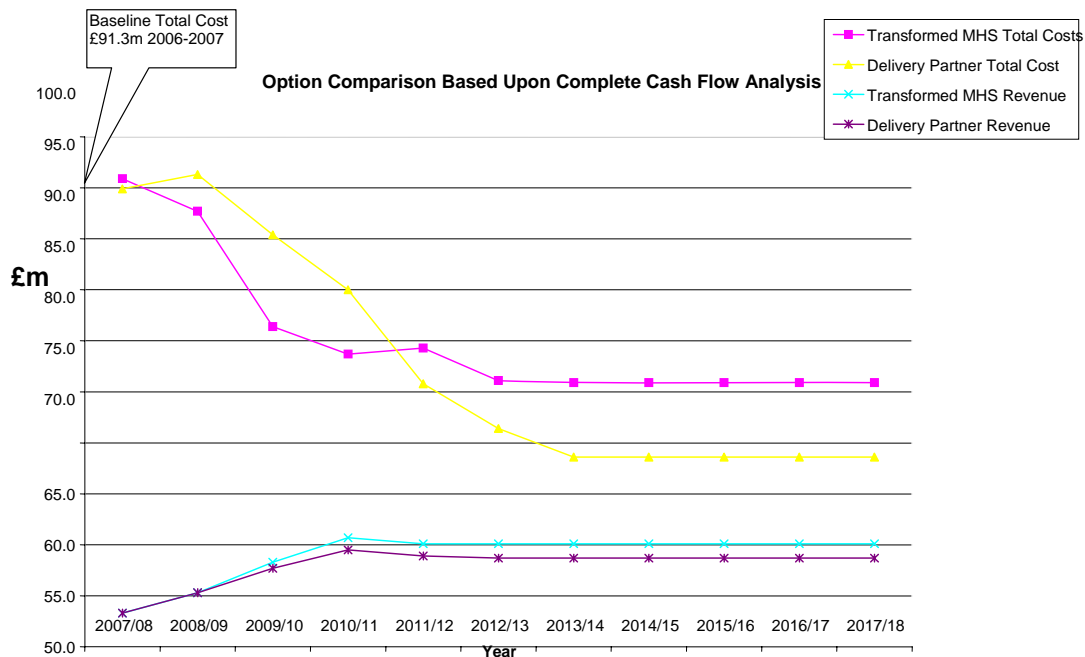
11.37 It follows that predicting revenue has been the most challenging part of the financial modelling. Some of the variables include:

- How much revenue from government customers will decline as Official Controls are simplified and there is less work to do. For example, the FSA Board will shortly discuss proposals to reduce SRM controls in under thirty months (UTM) cattle. This should reduce costs to the FSA, but as it will also reduce MHS activity (and costs), the net effect on the overall FSA budget will be minimal.
- The extent to which government customers will press for lower price contracts to match their reduced budgets.
- How much more Food Business Operators will pay towards the cost of Official Controls.
- Whether the delivery body (MHS or other) can access new business and revenue streams.

11.38 The results of the financial modelling of revenue are shown on the summary charts that follow (Figures 11.2 and 11.3).

Overall Summary Charts

Figure 11.2 Full Cash Flow Analysis

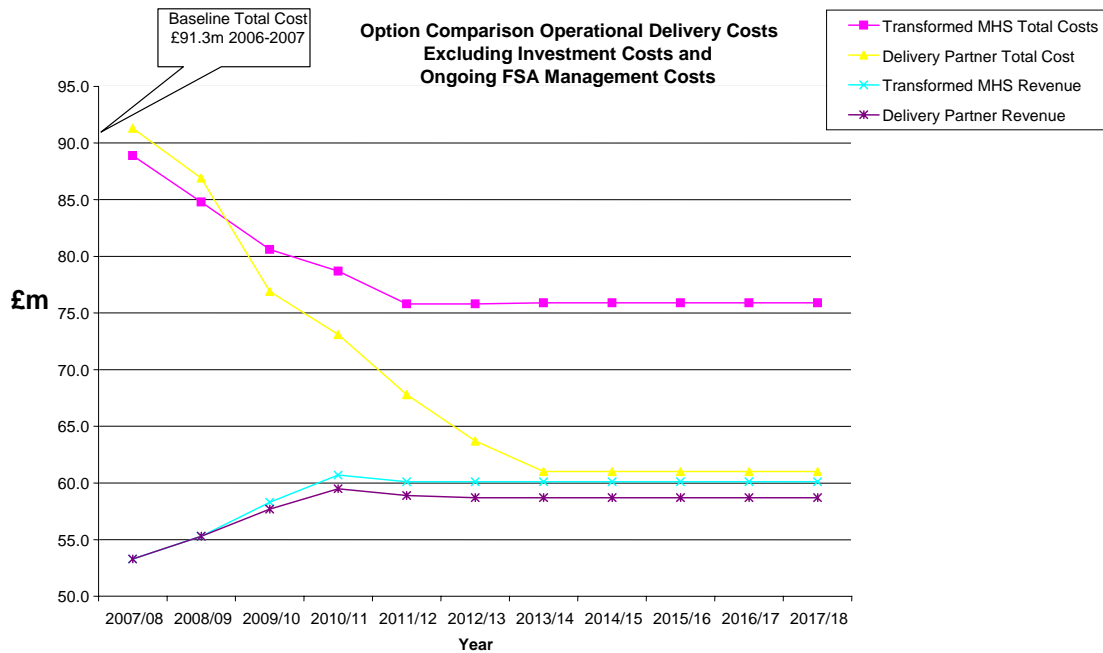


11.39 This chart shows the forecast including the upfront investment and ongoing management costs. These are significant with the result that there remains a gap between total costs and forecast income. This gap is the “FSA subsidy” towards the cost of delivering Official Controls.

11.40 Notes:

- All investment and ongoing FSA management costs are included
- Assumed profit margin for Delivery Partner is included
- Revenue does not include the FSA contribution to Net Operating Costs
- Revenue does include £8.5m by end of CSR period uplift in income from Food Business Operators
- Revenue does include £6m SRM income from industry, offset by a £6m reduction income from the FSA
- Forecast revenues are slightly different for the TMHS and the Delivery Partner because they are calculated partly as a function of total costs (because government customers pay full cost).

Figure 11.3 Cash Flow Analysis Excluding Investment and Ongoing FSA Management Costs



11.41 This chart shows the forecast excluding the upfront investment and ongoing management costs. It is therefore a description of the operating position assuming that the investment to achieve the changes has been successfully made (and progressively recovered from operating savings) In this model, the gap between operating costs and forecast revenue is significantly reduced for the Delivery Partner model.

11.42 Notes:

- All investment and ongoing FSA management costs are not included
- Assumed margin for Delivery Partner is not included
- Revenue does not include the FSA contribution to Net Operating Costs
- Revenue does include £8.5m by end of CSR period uplift in income from Food Business Operators
- Revenue does include £6m SRM income from industry, offset by a £6m reduction income from the FSA

ANNEX A Plants Visited During the Review

ABP Plant, Ellesmere

A K Stoddart Beef, Ayr

Aldington Abattoir, Kent

Alec Jarrett Ltd, near Bristol

Alec Traves, Escrick Nr York

Bowland's Foods, Sedgefield

Brian Hewitt, Abattoir, Huxley, Cheshire

Cheale, Brentwood

Cleveland Meats, Stockton on Tees

Dunbia (Sawley) Ltd, Clitheroe

Faccenda Chicken, Brackley

Freemans of Newent, Gloucester

Graig Farm Organics, Llandrindod Wells

H Lyes & Son (Universal Traders), Gloucester

Havards, Caerphilly

Jewitt's, near Scotch Corner

Mull and Iona Slaughterhouse, Isle of Mull

Romford Halal Meat, Romford

Simply Halal, Milton Keynes

Smithfield Market, London

St Merryn Meat Ltd, Merthyr Tidfyl

Thompson's, Bishop Auckland

Tulip Foods, Bristol

ANNEX B Questionnaire used in Phase 2 of the Review

Review of the Delivery of Official Controls in Approved Meat Premises

In accordance with the provisions of Freedom of Information Act 2000/Environmental Information Regulations 2004, all information contained in your response may be subject to publication or disclosure. If you consider that some of the information provided in your response should not be disclosed, you should indicate the information concerned, request that it is not disclosed and explain what harm you consider would result from disclosure. The final decision on whether the information should be withheld rests with the FSA. However, we will take into account your views when making this decision.

Q1	The production of meat (slaughtering and cutting) is much more heavily regulated than the production of other types of food. Do you think this is justified? What barriers might there be to making the food businesses operators more directly responsible for the safety of the meat they produce, as happens elsewhere in the food chain?
Q2	What are the potential advantages and disadvantages of moving responsibility for the delivery of Official Controls from a government agency to a specialist, independent organisation in the private, public or voluntary sector?
Q3	At present, the delivery of Official Controls for meat hygiene in approved meat premises is subsidised by the taxpayer by around £30m per year. Is there a case for continuing taxpayer subsidy for meat inspection charges or should businesses be expected to pay for the services they receive?
Q4	The requirement to carry out Official Controls on meat is laid down in EU Regulations. Should there be a single, UK wide approach to delivering Official Controls or are there good reasons for England, Scotland, Wales and Northern Ireland to have flexibility in how the controls are delivered?
Q5	How should the FSA, as the UK Competent Authority, audit approved meat plants, Official Veterinarians and Meat Inspectors to ensure high levels of regulatory compliance and consumer safety?
Q6	What would a proportionate, targeted, consistent, risk-based system of inspection and audit look like in the meat industry? How might it operate to deliver both consumer protection and value for money?
Q7	<p>The objective of the Review is “To ensure that the delivery of Official Controls in approved meat premises is providing necessary consumer protection in a targeted, risk-based and proportionate way that represents value for money for operators, taxpayers, consumers and government”.</p> <p>Please use the space below to tell us anything else you would like about the Review and how you think we might best achieve the objective set out above.</p>

Questions particularly for Consumers

Q8	What concerns do you have about the safety of meat? Why do you feel this way?
Q9	Do you think that the government is doing enough to promote the safety of meat to consumers? What more would you like to see?
Q10	When considering the safety of the meat you buy, what reliance would you tend to put on assurances, including labels, of the major producers and retailers?

Thank you for completing this feedback form.

The Review team may wish to contact you to talk about your response. If you do not object to this, please complete the following form:

Name of Organisation (if applicable)	
Name	
Email address	
Postal Address	
Telephone number	

Where contact details have been provided, if you would like to be kept informed of developments on this or other related issues, please tick this box.

Please send your completed form by post or by email to:

Clare McLean
Food Standards Agency
Room 620
Aviation House
125, Kingsway
London WC2B 6NH

Email: clare.mclean@foodstandards.gsi.gov.uk

by **11 May 2007**.

ANNEX C Organisations that provided input into the Review:

Governmental / Advisory Committees

Argyll & Bute District Council
Better Regulation Executive
Cardiff City Council
Department for Environment, Food & Rural Affairs (including Animal Health)
Department of Environmental Services, City of London
Department of Health
East Lothian Council
Lincolnshire County Council
Local authorities Coordinators of Regulatory Services
Meat Hygiene Service
Northern Ireland Assembly Department of Agriculture & Rural Development
Northern Ireland Food Advisory Committee
Perth & Kinross Council
Scottish Executive Environment & Rural Affairs Department
Scottish Food Advisory Committee
Scottish Food Enforcement Liaison Committee
South Hams District Council
The Highland Council
Treasury Solicitors
Welsh Assembly Government Department for Environment, Planning & Countryside
Welsh Assembly Government Department Public Health Protection Division
Welsh Food Advisory Committee

International

Central Organisation for the Meat Industry, Netherlands
Danish Veterinary & Food Administration
Directorate General for Health & Consumer Affairs (DG Sanco)
Dutch Food Authority (VWA)
European Commission Food & Veterinary Office (FVO)
French General Food Directorate, Ministry of Agriculture & Fishing (Food Safety)
New Zealand Food Safety Authority
US Department of Agriculture Food Safety & Inspection Service
United Kingdom Permanent Representation to the European Union

Trade Representative Bodies

Association of Independent Meat Suppliers
British Meat Processors Association
British Poultry Council
British Pig Executive
Cold Storage & Distribution Federation
Guild of Welsh Lamb & Beef Suppliers
Levy Board
Meat & Livestock Commission

National Federation of Meat & Food Traders
Northern Ireland Meat Exporters Association
Small Abattoir Federation
Safe And Local Supplier Approval
Scottish Association of Meat Wholesalers

Industry / Producers

ABP
A K Stoddart
Aldington Abattoir (when owned by Tim Schofield, The Change Organisation)
Alec Jarret Ltd
Alec Traves
Bakers of Nailsea
Bernard Matthews
Bowland's Foods
Brian Hewitt Abattoir
Chadwick Family's Emporium of Fine Food
Cheale
Cleveland Meats
Dunbia (Sawley) Ltd
F & P Meats
Faccenda Chicken
Freemans of Newent
Graig Farm Organics
H Lyes & Son (Universal Traders)
Havards
Irish Food Processors
Jewitt's
Kilhallon Quality Meats
Mull & Iona Slaughterhouse
Nigel Fredericks
Premier Foods
Romford Halal Meat
Simply Halal
St Merryn Meat Ltd
Smithfield Market Tenants' Association
Thompson's
Tulip Foods
William Lloyd Williams & Son

Contractors

Avenue Vets
Eville & Jones
Food Consulting & Inspection Ltd
Grants Veterinary Services
Hall Mark Meat Hygiene
Hygiene Audit Ltd
Veterinary Meat Hygiene Service

Retail

Tesco

Professional / Assurance

Association of Meat Inspectors

British Retail Consortium

British Veterinary Association

Campden & Chorleywood Food Research Association

Chartered Institute of Environmental Health

English Beef & Lamb Executive

EFSIS

Food Training International

Hybu Cig Cymru – Meat Promotion Wales

Improve Ltd

Institute of Auctioneers and Appraisers

Quality Meat Scotland

Royal College of Veterinary Surgeons

Scottish Food Quality Certification

The Change Organisation

United Kingdom Accreditation Service

Veterinary Public Health Association

Consumers / Consumer Groups

Consumer Focus Groups (6 groups with a total of 45 respondents)

Foodaware

Haemolytic Uraemic Syndrome Help: The UK E-coli Support Group

National Consumer Federation

Which?

Representative Organisations

Country Land & Business Association

Farmers Union of Wales

National Farmers Union

National Farmers Union of Scotland

National Farmers Union of Wales

UNISON

Consultants

ADAS Consulting Ltd

DNV Consulting (Philip Comer)

David Eves

Academics

Jim Scudamore

Patrick Wall

University of Glasgow Veterinary School

ANNEX D FTE Changes in the delivery models

FTE Changes Summary	Transformed MHS Option		Delivery Partner Option			
	Average MHS Total 2006-07	Transformed MHS 2010-11	MHS (Reduction)	CCA plus Delivery Partner + 5 Years (2013-2014)	Delivery Partner (Reduction)	Delivery Partner & CCA vs MHS
Corporate Services						
Finance (& Procurement)	36	36	0	29	(7)	(7)
HR	26	23	(3)	21	(5)	(2)
IT	17	15	(2)	20	3	5
Business Development	18	16	(2)	10	(8)	(6)
Agency Administration Staff	11	11	0	0	(11)	(11)
Total	108	101	(7)	80	(28)	(21)
Operational Delivery						
SMHI	92	37	(55)	63	(29)	26
MHI	819	750	(69)	588	(231)	(162)
Casual MHI	32	32	0	32	0	0
TMHI	31	0	(31)	3	(28)	3
SPMHI	4	4	0	3	(1)	(1)
PMHI	57	53	(4)	36	(21)	(17)
MT	150	105	(45)	78	(72)	(27)
Contract MHI	213	157	(56)	182	(31)	25
RVA	15	0	(15)	11	(4)	11
AOV/OVSL	10	82	72	8	(2)	(74)
OV	16	14	(2)	11	(5)	(3)
Contract OV	312	258	(54)	299	(13)	41
Total Frontline (excl Contractors)	1226	1077	(149)	801	(425)	(276)
Operational Support Unit (OSU)	12	12	0		(12)	(12)
Regional Management & Administration	75	37	(38)		(75)	(37)
Agency Administration Staff	9	9	0		(9)	(9)
Area Managers	31	18	(13)		(31)	(18)
OSU & Regional Management	127	76	(51)	60	(67)	(16)
Total	1353	1153	(200)	861	(492)	(292)
Total with Contractors	1878	1568	(310)	1374	(504)	(194)
Veterinary & Technical Support Unit	38	45	7	55	17	10
Total Employed FTE	1499	1299	(200)	996	(503)	(303)
Total FTE	2024	1714	(310)	1509	(515)	(205)
Total FTE Reduction		310		515		
Total Severance		310		329		
Percentage Reduction		15%		25%		
Total CCA Recruitment						
Total CCA Relocation						

NB. All figures exclude Agency Temporary Administration Staff and Casual Operational Staff

	£000s	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
Loss/(Gain) of Programme Revenue													
Loss of revenue as result of reduction in frontline staff		1,025	1,544	1,544	1,544	1,544	1,544	1,544	1,544	1,544	1,544	1,544	16,467
Recovery of SRM from FBOs (FSA Board Strategy)		0	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)	(60,000)
Reduction in Contribution to SRM Costs from FSA		0	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	60,000
Further recovery of Official Controls cost from FBOs (FSA)		0	(2,500)	(5,500)	(8,500)	(8,500)	(8,500)	(8,500)	(8,500)	(8,500)	(8,500)	(8,500)	(76,000)
Defra Programme reduction (TSE)		1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	16,500
Reduction in Baseline revenue through time-based charging		0	0	0	605	1,182	1,182	1,182	1,182	1,182	1,182	1,182	8,878
Removal of 45% Rule		2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	24,200
Total Programme Revenue adjustments		4,725	2,744	(256)	(2,651)	(2,074)	(2,074)	(2,074)	(2,074)	(2,074)	(2,074)	(2,074)	(9,955)
Annual net cash flow		9,329	4,083	(10,134)	(15,241)	(14,013)	(17,276)	(17,523)	(17,534)	(17,534)	(17,534)	(17,534)	(130,912)
Cumulative net cash flow		9,329	13,412	3,278	(11,963)	(25,976)	(43,252)	(60,775)	(78,309)	(95,844)	(113,378)	(130,912)	
Discount Factor 3.5%		1.0000	0.9662	0.9335	0.9019	0.8714	0.8419	0.8135	0.7860	0.7594	0.7337	0.7089	
Discounted cash flows annual		9,329	3,945	(9,460)	(13,746)	(12,211)	(14,545)	(14,254)	(13,781)	(13,315)	(12,865)	(12,430)	(103,333)
Discounted cash flows cumulative		9,329	13,274	3,814	(9,932)	(22,142)	(36,688)	(50,942)	(64,723)	(78,039)	(90,904)	(103,333)	
Post Transformation Cash Flows													
Total Cost		95,930	92,666	81,449	78,737	79,388	76,125	75,878	75,866	75,866	75,866	75,866	883,639
Revenue		(53,312)	(55,293)	(58,293)	(60,688)	(60,111)	(60,111)	(60,111)	(60,111)	(60,111)	(60,111)	(60,111)	(648,366)
Adjustment for non-cash items		(494)	(494)	(494)	(494)	(494)	(494)	(494)	(494)	(494)	(494)	(494)	(5,430)
Net cost of Operations		42,124	36,879	22,662	17,555	18,783	15,520	15,273	15,262	15,262	15,262	15,262	229,843
SRM Contribution from FSA		11,171	5,171	5,171	5,171	5,171	5,171	5,171	5,171	5,171	5,171	5,171	62,881
FSA Meat Hygiene Programme Cost		53,295	42,050	27,833	22,726	23,954	20,691	20,444	20,433	20,433	20,433	20,433	292,724
Cost per Livestock Unit													
Livestock Units (000s)		6,473	6,473	6,473	6,473	6,473	6,473	6,473	6,473	6,473	6,473	6,473	6,473
Annual Cost per Livestock Unit		£14.82	£14.32	£12.58	£12.16	£12.27	£11.76	£11.72	£11.72	£11.72	£11.72	£11.72	£11.72
Cumulative Cost per Livestock Unit (10 Years)		£14.82	£14.57	£13.91	£13.47	£13.23	£12.99	£12.80	£12.67	£12.56	£12.48	£12.41	£12.41
Comprehensive Spending Review Period Cost per Livestock Unit		£14.82	£13.02			£11.92			£11.72			£11.72	£11.72

Note:

Assumes constant prices
Assumes Livestock Units remain at 2006/07 levels
All figures are modelled over a 10-year period.

ANNEX F Delivery Partner Incremental Cash Flow

	Delivery Partner Year											
	1											
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
Baseline (per 2006-07 Annual Accounts)												
Total Cost	91,327	91,327	91,327	91,327	91,327	91,327	91,327	91,327	91,327	91,327	91,327	1,004,596
Revenue	(58,037)	(58,037)	(58,037)	(58,037)	(58,037)	(58,037)	(58,037)	(58,037)	(58,037)	(58,037)	(58,037)	(638,411)
Adjustment for non-cash items	494	494	494	494	494	494	494	494	494	494	494	5,430
Operating Cash Flow	33,783	33,783	33,783	33,783	33,783	33,783	33,783	33,783	33,783	33,783	33,783	371,615
FSA SRM costs	11,171	11,171	11,171	11,171	11,171	11,171	11,171	11,171	11,171	11,171	11,171	122,881
	44,954	44,954	44,954	44,954	44,954	44,954	44,954	44,954	44,954	44,954	44,954	494,496
Set up costs												
Programme management & delivery	588	1,426	1,155	369	0	0	0	0	0	0	0	3,538
Severance	3,000	8,000	5,500	3,126	0	0	0	0	0	0	0	19,626
Ongoing FSA Management Costs	0	0	2,854	2,854	2,854	2,854	2,854	2,854	2,854	2,854	2,854	25,686
Total Set up costs	3,588	9,426	9,509	6,349	2,854	2,854	2,854	2,854	2,854	2,854	2,854	48,850
		13,014	22,523	28,872	31,726							
Running cost (savings)												
Reduction in Frontline Staff Costs & Associated Costs	0	(4,413)	(8,312)	(11,992)	(16,479)	(20,526)	(22,775)	(22,775)	(22,775)	(22,775)	(22,775)	(175,597)
Estimated Overhead Reduction	0	0	(6,036)	(6,212)	(7,020)	(7,122)	(7,470)	(7,470)	(7,470)	(7,470)	(7,470)	(63,740)
Delivery Partner Service Charge (Estimated ROI)	0	0	3,902	5,564	5,167	4,856	4,661	4,661	4,661	4,661	4,661	42,794
Net cost (savings)	0	(4,413)	(10,446)	(12,640)	(18,332)	(22,792)	(25,584)	(25,584)	(25,584)	(25,584)	(25,584)	(196,543)

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
			Delivery Partner Year 1									
Loss/(Gain) of Programme Revenue												
Loss of revenue as result of reduction in frontline st	1,025	1,544	2,100	2,700	2,700	3,000	3,000	3,000	3,000	3,000	3,000	28,069
Recovery of SRM from FBOs (FSA Board Strategy)	0	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)	(60,000)
Loss of revenue from FSA SRM contribution		6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	60,000
Further recovery of Official Controls cost from FBO	0	(2,500)	(5,500)	(8,500)	(8,500)	(8,500)	(8,500)	(8,500)	(8,500)	(8,500)	(8,500)	(76,000)
Defra Programme reduction (TSE)	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	16,500
Reduction in Baseline revenue through time-based	0	0	0	605	1,182	1,182	1,182	1,182	1,182	1,182	1,182	8,878
Removal of 45% Rule	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	24,200
Total Programme Revenue adjustments	4,725	2,744	300	(1,495)	(918)	(618)	(618)	(618)	(618)	(618)	(618)	1,647
Annual net cash flow	8,313	7,757	(637)	(7,786)	(16,396)	(20,556)	(23,348)	(23,348)	(23,348)	(23,348)	(23,348)	(146,046)
Cumulative net cash flow	8,313	16,070	15,433	7,647	(8,749)	(29,305)	(52,653)	(76,001)	(99,349)	(122,697)	(146,046)	
Discount Factors	1	0.9962	0.9335	0.9019	0.8714	0.841932367	0.813461224	0.7859529	0.7593748	0.7336954	0.70888446	
Discounted cash flows annual	8,313	7,728	(595)	(7,022)	(14,288)	(17,307)	(18,993)	(18,351)	(17,730)	(17,130)	(16,551)	(111,925)
Discounted cash flows cumulative	8,313	16,041	15,446	8,424	(5,864)	(23,170)	(42,163)	(60,514)	(78,244)	(95,374)	(111,925)	
Total Cost before DP overhead	91,327	86,914	76,979	73,123	67,828	63,679	61,082	61,082	61,082	61,082	61,082	765,259
Post Transformation Cash Flows												
Total Cost	94,915	96,340	90,390	85,036	75,849	71,389	68,597	68,597	68,597	68,597	68,597	856,903
Revenue	(53,312)	(55,293)	(57,737)	(59,533)	(58,955)	(58,655)	(58,655)	(58,655)	(58,655)	(58,655)	(58,655)	(636,763)
Adjustment for non-cash items	(494)	(494)	(494)	(494)	(494)	(494)	(494)	(494)	(494)	(494)	(494)	(5,430)
Net Cost of Operations	41,109	40,553	32,159	25,010	16,400	12,240	9,448	9,448	9,448	9,448	9,448	214,710
Remaining SRM Contribution	11,171	5,171	5,171	5,171	5,171	5,171	5,171	5,171	5,171	5,171	5,171	62,881
FSA Meat Hygiene Programme Cost	52,280	45,724	37,330	30,181	21,571	17,411	14,619	14,619	14,619	14,619	14,619	277,591
												277,591
Cost per Livestock Unit												
Livestock Units (000s)	6,473	6,473	6,473	6,473	6,473	6,473	6,473	6,473	6,473	6,473	6,473	6,473
Annual Cost per Livestock Unit	£14.66	£14.88	£13.96	£13.14	£11.72	£11.03	£10.60	£10.60	£10.60	£10.60	£10.60	£10.60
Cumulative Cost per Livestock Unit (10 Years)	£14.66	£14.77	£14.50	£14.16	£13.67	£13.23	£12.86	£12.57	£12.35	£12.18	£12.04	£12.04
Comprehensive Spending Review Period Cost per Livestock Unit	£14.66	£14.00			£11.12			£10.60			£10.60	
Payback Period												
Programme starts		Aug-07										
Implementation Costs Recovered		2012										

Note:
Assumes constant prices
Assumes Livestock Units remain at 2006/07 levels
All figures are modelled over a 10-year period.

Annex 2 - Evaluation Criteria – An assessment of relative strengths and weaknesses

Category 1 Criteria	TMHS	Delivery Partner	Low Throughput / Local Authority	FBO responsibility and poultry	Working with Animal Health
Maintains meat safety	By targets	By contract	By contract	By OV input	By improved communication
Safeguards consumer confidence	Direct FSA control	Worry about private sector	Worry about local authority role	Opposes FBO responsibility	Support for more integration
Benefits exceed costs in short and long terms	In shorter term	In longer term	Does not proceed otherwise	Delivers cost savings	Very low costs
Manageable impact on staff and ongoing delivery	Challenge but Unison support	Opposed by Unison and some staff	Built around local staff availability	Need to transfer or redeploy	Little impact
Is feasible to implement	Challenge to change the culture	Challenge to set up from scratch	Challenge to build local solutions	Challenge to organise training	Challenge to secure AH support
Effective controls and levers for FSA	FSA's own agency	By contract management	LAs can sometimes be challenging	By OV and Regional Vet manager	More sharing of responsibility
Compatible with controls on animal health and welfare	As status quo	By contract management	By contract management	By training and support	Would improve links
TOTAL	18	16	18	17	19

Category 2 Criteria	TMHS	Delivery Partner	Low Throughput / Local Authority	FBO responsibility and poultry	Working with Animal Health
Builds EU and FVO confidence	Unproven	Unproven	Suspicious of LA involvement	Depends on OV supervision	Supports integrated vet services
Includes appropriate incentives for compliance and efficiency	Deliver through charging policy	Deliver through charging policy	Plants inherently less efficient	Financial incentives	Not relevant
Is the basis for a reasonable partnership with Industry	Industry sceptical of transformation	Industry support	Industry supports local flexibility	Needs assurance over training	Not relevant
Helps deliver better regulation	Monopoly supplier?	Competition and contestability	Local flexibility and adaptability	Make the FBO responsible	Joining up (Hampton)
Reflects differences and sensitivities across the UK	Regional structure	National contracts and delivery	Local solutions	Local solutions	Organisation boundaries?
Includes flexibility for future change	Subject to negotiations	Revise contracts	Revise contracts	FBOs can respond	No issues
TOTAL	14	16	15	16	17

	Meets criterion well	3 points
	Raises some issues	2 points
	More serious concerns	1 point

GLOSSARY

Animal Health (AH)	Formerly the State Veterinary Service
Animal Identification	The checking of animal passports and ear tags to ensure that animals presented for slaughter for human consumption are correctly identified.
Approved Meat Premises	Premises licensed to produce meat and related products. Examples include slaughterhouses, cutting plants and minced meat facilities. These premises are subject to MHS audit, verification and inspection.
Audit	A systematic and independent examination to determine whether activities and related results comply with planned arrangements and whether these arrangements are implemented effectively and are suitable to achieve objectives.
<u>Bovine Spongiform Encephalopathy (BSE)</u>	Cattle, sheep and goats can be susceptible to a group of brain diseases known as transmissible spongiform encephalopathies (TSEs). The best known of these diseases is BSE (mad cow disease) in cattle.
Carcass (Carcase)	Body of an animal after slaughter and dressing.
Catering Butcher	Catering butchers supply all or most of their production to the catering trade. Subject to exemption they need to be approved in accordance with Regulation (EC) 853/2004.
Cold Store	Any premises, not forming part of a cutting plant, game-handling establishment or slaughterhouse, used for the storage, under temperature controlled conditions, of fresh meat intended for sale for human consumption.
Competent Authority (CA)	The central authority of a Member State competent for the organisation of Official Controls or any other authority to which that competence has been conferred; it shall also include, where appropriate, the corresponding authority of a third country.
Control Body (Delivery Partner)	An independent third party to which the Competent Authority has formally delegated under EU Regulations for the delivery of specified Official Controls.
Critical Control Point	A point, step or procedure at which controls can be applied and a food safety hazard can be prevented, eliminated or reduced to acceptable (critical) levels.
Cutting Plant	An establishment used for boning and/or cutting up meat.
Food Business	Any undertaking whether for profit or not and whether public or private, carrying out any of the activities related to any stage of production, processing and distribution of food.
Food Business Operator (FBO)	The natural or legal persons responsible for ensuring that the requirements of food law are met within the food business under their control.

Game-handling establishment	Any establishment in which game and game meat obtained after hunting are prepared for placing on the market
Hazard Analysis & Critical Control Point (HACCP)	Internationally accepted as the system of choice for food safety management, HACCP is a systematic way of identifying food safety hazards and making sure that they are being controlled day-in, day-out.
Health Marking	The OV is responsible for the application of a health mark. This is a stamp that is applied to fresh meat carcasses produced in approved premises in accordance with the regulations. It is an internationally recognised symbol indicating that the meat has been passed fit for human consumption.
Inspection	The examination of establishments, animals and food, of their processing, of food businesses, of their management and production systems, including finished product testing and feeding practices, and of the origin and destination of production input and outputs, in order to verify that all these items conform to legal requirements.
Meat Technician	Responsible for checking that beef and sheep carcasses are free from Specified Risk Material (SRM), and for supervising the staining of SRM. Meat Technicians also examine cattle passports and ear-tags to ensure that the Over Thirty Month (OTM) Rule – which prohibits entry to the human food chain of cattle over that age – is being adhered to. They support Official Auxiliaries and work under the authority and responsibility of an Official Veterinarian
Offal	Fresh meat other than that of the carcass, including viscera and blood.
Official Auxiliary (Meat Inspector / Meat Hygiene Inspector - MHI)	A person qualified, in accordance with Regulation (EC) 854/2004, to act in such a capacity, appointed by the Competent Authority and working under the authority and responsibility of an Official Veterinarian.
Official Control	Any form of control that the Competent Authority performs for the verification of compliance with feed and food law, animal health and animal welfare rules.
Official Veterinarian (OV)	A veterinarian qualified, in accordance with Regulation (EC) 854/2004, to act in such a capacity and appointed by the Competent Authority.
Slaughterhouse	An establishment used for slaughtering and dressing animals, the meat of which is intended for human consumption.
Specified Risk Material (SRM)	Includes those tissues of cattle, sheep and goats which are known to, or might potentially, harbour detectable BSE infectivity in infected animals, such as the brain and spinal cord from bovines over six months of age. The tissues which fall within the current definition of SRM are listed on the Food Standards Agency website.

Transmissible Spongiform Encephalopathies (TSEs).	A group of brain diseases to which cattle, sheep and goats are susceptible.
Verification	Checking by examination and the consideration of the objective evidence whether specified requirements have been fulfilled.